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# UNITED STATES-JAPANESE TRADE IN AUTO PARTS

## HEARING

BEFORE THE

SUBCOMMITTEE ON TRADE, PRODUCTIVITY, AND ECONOMIC GROWTH

OF THE

## JOINT ECONOMIC COMMITTEE
## CONGRESS OF THE UNITED STATES

NINETY-NINTH CONGRESS

SECOND SESSION

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APRIL 24, 1986

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# UNITED STATES-JAPANESE TRADE IN AUTO PARTS

THURSDAY, APRIL 24, 1986

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON TRADE, PRODUCTIVITY,
AND ECONOMIC GROWTH OF THE
JOINT ECONOMIC COMMITTEE,
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room SR-385, Russell Senate Office Building, Hon. Pete Wilson (member of the subcommittee) presiding.

Present: Senator Wilson.

Also present: John Starrels, professional staff member.

## OPENING STATEMENT OF SENATOR WILSON, PRESIDING

Senator WILSON. Good morning, ladies and gentlemen. Welcome to this meeting of the Joint Economic Committee's Subcommittee on Trade, Productivity, and Economic Growth.

The focus of this morning's hearing is United States-Japanese trade in automotive parts.

Earlier this month, H.P. Goldfield, Assistant Secretary for Trade Development at the U.S. Department of Commerce, led a distinguished group of governmental and private sector officials to Tokyo in order to raise this troublesome issue with the Japanese. Today we will receive testimony about these market-opening efforts.

The United States trade deficit with Japan reached $50 billion last year. To some degree, the strong U.S. dollar contributed to this bilateral imbalance. So we can accordingly expect that a weaker dollar in 1986 and beyond will help restore some of the equilibrium. But Japan's continued resort to anticompetitive trade practices continues to bear a substantial responsibility for the magnitude of our trade balance.

It is my fear that Japanese automakers—both in Japan and this country—have refused to buy competitively priced United States auto parts and accessories, including semiconductors. For this reason, I am pleased that the Reagan administration has taken the lead to expand opportunities for these industries.

It is apparent that, except for a limited number of unique cases, Unites States suppliers are denied the opportunity to sell original equipment parts for use by Japanese vehicle manufacturing facilities in Japan, the United States, and third-country markets. In addition, United States suppliers are largely barred from selling re-

placement parts and accessories for the large volume of Japanese cars on the road in Japan.

This double bar to U.S. sales is attributable to a number of factors. At the top of this list is Japan's unique auto producer-auto supplier relationship which encourages domestic sourcing at the direct expense of United States companies. So I look forward to the observations of our panel of experts on this central issue.

Surrounding this specific matter, however, is Japan's more generalized attitude which can be summed up in the following principle: you open your market to use, but don't expect us to accord similar rights to you. Which is why Japan's apparent refusal to include auto parts in the next round of market-opening negotiations, the MOSS talks, hardly comes as a surprise.

What is to be done? I must say that we have come close to exhausting the palatable alternatives, including Tokyo's yearly promise to finally open up its protected marketplace to U.S. goods. This leaves one basic approach; namely, to insist on a rigorous quid pro quo from Japan which makes sales in our market for a particular item directly dependent on a parallel willingness by Japan to accord equal access to our producers. And I can think of few more appropriate places to begin than auto parts and accessories.

At this juncture, let me introduce our excellent witnesses this morning who will report to us in detail about the nature of the challenge we face in this arena. We will begin with H.P. Goldfield, Assistant Secretary for Trade Development, U.S. Department of Commerce; he will then be followed by Andrew S. Procassini, president of the Semiconductor Industry Association, which is based in my home State of California; by Robert E. Cole, corporate vice president of government affairs, Kaiser Aluminum & Chemical Corp.; and Robert W. McMinn, senior vice president of planning/development for the Automotive Parts and Accessories Association.

Gentlemen, you and the members of the audience are most welcome this morning.

Secretary Goldfield, we are delighted to have you here. We do have very substantial statements from the witnesses. Those will be included in their entirety in the record, as will the opening statement of my colleague, Senator Symms, who is unable to be with us but who has submitted a statement which will be made part of the record.

[The written opening statement of Senator Symms follows:]

## Written Opening Statement of Senator Symms

Good Morning, Mr. Chairman and Members of the Committee

I'm pleased to have the opportunity to comment on an important aspect of our trade with Japan. Senator Wilson, I thank you for calling this hearing to give us an opportunity to explore specific questions relating to reaching Japanese markets.

We are all aware that we transact an enormous volume of business with Japan. Last year our total trade with Japan was approximately $100 billion. Unfortunately that includes a US deficit of approximately $49.7 billion. Reducing that trade deficit is vital in the context of maintaining our overall economic vitality.

It is disturbing that we are experiencing such difficulty in lowering trade barriers restricting entry into Japanese markets. Its amazing that American aluminum producers are not having more success in supplying parts for automobiles manufacutred by Japanese firms here in the United States.

THE PEOPLE OF MY STATE OF IDAHO HAVE A DIRECT INTEREST IN THIS ISSUE. THE PACIFIC NORTHWEST IS A MAJOR CENTER OF ALUMINUM PRODUCTION IN THE UNITED STATES. I'M PLEASE TO SEE TESTIFYIING THIS MORNING MR. ROBERT E. COLE, CORPORATE VICE PRESIDENT OF GOVERNMENT AFFAIRS FOR KAISER ALUMINUM AND CHEMICAL CORPORATION. I KNOW HE IS WELL VERSED ON THE ISSUE UNDER CONSIDERATION. TWO OF THE MOST IMPORTANT MANUFACTU;RING FACILITIES IN THE NORTHWEST ARE KAISER ALUMINUM AND CHEMICAL CORPORATION'S TRENTWOOD ROLLING MILL AND SMEAD SMELTER IN SPOKANE, WASHINGTON. THE TRENTWOOD PLANT IS ONE OF KAISER'S TWO MAJOR U. S. SHEET AND PLATE MILLS. LAST YEAR KAISER COMPLETED A $230 MILLION MODERNIZATION OF THIS PLANT. I THINK THERE IS NO QUESTION THAT IT IS COMPETITIVE WITH ANY IN THE WORLD. A SIZEABLE PORTION OF THE KAISER EMPLOYEES AT THE TWO SPOKANE PLANTS LIVE ACROSS THE LINE IN NORTHERN IDAHO. OBVIOUSLY, IS KAISER IS EXCLUDED FROM MAJOR ALUMINUM MARKETS, SUCH AS THE JAPANESE MARKET, JOBS IN NORTHERN IDAHO WOULD BE IN JEOPARDY.

I'M CONVINCED THAT THE AMERICAN ALUMINUM INDUSTRY IS COMPETITIVE WITH ANY IN THE WORLD. CERTAINLY ITS MORE THAN COMPETITIVE WITH THE JAPANESE ALUMINUM INDUSTRY WHICH IS CURRENTLY BEING REORGANIZED BY THE JAPANESE GOVERNMENT BECAUSE OF A VARIETY OF PROBLEMS. FOR SOME TIME THE JAPANESE GOVERNMENT HAS BEEN PROTECTING THEIR ALUMINUM INDUSTRY WITH A VARIETY OF TARIFF AND NON-TARIFF TRADE BARRIERS.

CONSIDERING THE STATE OF THE JAPANESE ALUMINUM INDUSTRY AND THE INHERENT ADVANTAGES OF ALUMINUM IN MANY AUTOMOTIVE APPLICATIONS, IT IS LOGICAL TO EXPECT AMERICAN ALUMINUM AUTOMOBILE PARTS AND COMPONENTS TO BE AN INTERGAL PART OF JAPANESE AUTOMOBILES MANUFACTURED IN THE UNITED STATES. UNFORTUNATELY THIS ISN'T THE CASE. ONLY ONE JAPANESE AUTOMOBILE COMPANY USES ALUMINUM EXTENSIVELY AND IN ONLY ONE MODEL. IT APPEARS THAT JAPANESE AUTOMAKERS HAVE MADE THE DECISION TO AVOID USING ALUMINUM IF THEIR OWN MANUFACTURERS CAN'T MEET THEIR NEEDS.

THIS IS ABSURD. WORSE THAN THAT, IT IS COMPLETELY OPPOSITE OF THE FAIR AND OPEN TRADE WE ARE TRYING TO ENCOURAGE BETWEEN OUR TWO COUNTRIES. IF THE JAPANESE CAN'T BRING THEMSELVES TO ALLOW SUPERIOR AMERICAN PRODUCTS TO BE USED IN THEIR PLANTS HERE IN THIS COUNTRY, WHEN CAN WE EXPECT AN OPPORTUNITY TO BEGIN TO REDUCE OUR TRADE DEFICIT WITH JAPAN? OBVIOUSLY THE PRESENT IMBALANCE CAN'T BE ALLOWED TO CONTINUE.

ITS MY UNDERSTANDING THAT THE JAPANESE HAVE RESISTED OUR SUGGESTION THAT AUTO PARTS BE THE SUBJECT OF THE NEXT ROUND OF MOSS TALKS. THEY MUST RECONSIDER AND BEGIN TO MOVE TOWARD A MORE MUTUALLY BENEFICIAL TRADE ENVIRONMENT. IT IS UNREALISTIC TO EXPECT AMERICA TO CONTINUE TO ACCEPT AN UNFAIR DISADVANTAGE IN OUR TRADE WITH JAPAN. THANK YOU

Senator WILSON. Because we do have prepared statements from our witnesses, they may feel free to summarize so that we will have more time to get to the questions.

With that, Secretary Goldfield, welcome. Please proceed.

## STATEMENT OF H.P. GOLDFIELD, ASSISTANT SECRETARY FOR TRADE DEVELOPMENT, DEPARTMENT OF COMMERCE

Mr. GOLDFIELD. Thank you, Senator. With your permission, I will take you up on your offer and submit the prepared statement for the record and summarize that in brief form.

It is a pleasure to be here this morning before you, Senator, and this subcommittee. This hearing is particularly timely. This is in fact a critical period for U.S. auto parts suppliers. There are approximately 2,000 auto parts suppliers in the United States and they employ well over 500,000 workers. They are located in almost every State of this Union.

U.S. auto parts companies produce quality products at competitive prices and they are reliable and flexible suppliers. But there is a problem. And that problem was recognized by you, Senator, in your opening remarks. The problem is that these United States auto parts suppliers are not being given a fair opportunity to compete, a fair opportunity to compete for the business of the Japanese auto companies, and a fair opportunity to compete for the Japanese aftermarket.

Now the Japanese original equipment manufacturers, or OEM's as they are known in the aftermarket for Japanese cars, represents a huge market indeed for United States auto parts suppliers. Let's look at some of the numbers.

The Japanese automobile companies shipped over 2.3 million vehicles to this country last year alone. This year the Japanese auto manufacturers in their United States facilities will manufacture approximately 300,000 vehicles. By 1990, that will rise to over 1 millon vehicles per year.

Auto parts production in the United States is about $80 billion a year. In Japan, the original equipment market is about $30 billion, and with the aftermarket another $30 billion.

But how much do we sell in that later case? How much do United States auto parts suppliers sell to that huge market in Japan?

Well, to that huge market in Japan, we sell less than $200 million a year. When you look at components of the Japanese made cars here in the United States, you see on average less than 35 percent United States content. Now U.S. auto parts companies, and as importantly, the 500,000 workers they employ, want to see things changed.

What are they looking for? They are looking for the opportunity to be able to compete in an open and free market, to be able to sell to the Japanese original equipment manufacturers, and to sell to the Japanese aftermarket. But they also want to sell to Japanese auto companies facilities in third markets, and most importantly, United States auto parts suppliers want the opportunity to sell in their own backyard, to the United States based facilities of the Japanese auto companies.

But no one is asking for handouts. No one is asking the Japanese auto manufacturers to make decisions for other than commercial reasons. But what we are asking for is the opportunity to compete freely and fairly for their business. What we are looking for is to be able to buy even a ticket. We can't even buy a ticket to get into the ballpark, let alone suit up and get up to bat to compete with the Japanese auto parts suppliers for the business in Japan, for the business in third markets, and especially for the business here in the United States in the facilities of the Japanese auto companies.

Now there was a time when one heard many allegations that United States auto parts manufacturers could not sell to the Japanese because our products were overpriced and lacked the assurances of quality and delivery that the Japanese are known to expect. This is simply no longer the fact. The U.S. auto parts industry has evolved into a world class producer.

In the past, Senator, we also heard arguments that United States auto parts manufacturers lacked the required commitment to do business in Japan and relied on exports only to dispose of excess inventory. This too, is no longer true.

I have seen firsthand that United States parts manufacturers are committed to developing and maintaining reliable supplier relationships with Japanese vehicle manufacturers wherever they may exist.

So what is the primary impediment to sales by United States parts producers to the Japanese vehicle manufacturers?

One primary impediment, as you mentioned, is the long-term, family-like relationship between Japanese vehicle producers and their traditional suppliers. These relationships discourage Japanese vehicle manufacturers from sourcing from United States parts producers and have encouraged these Japanese suppliers to follow their customers to the United States. These traditional relationships act to bar United States suppliers from shipping to Japanese vehicle producers in both Japan and the United States.

We intend to convince the Japanese vehicle manufacturers that sourcing from United States parts producers makes good business sense, and it has the added advantage of making good political sense.

Now what have we done about it? Last year we initiated the automotive parts trade initiative at the Department of Commerce. We did so to improve opportunities for the domestic suppliers of automotive parts, accessories and maintenance and repair equipment. We set clear goals to see to it that competitive United States auto parts were sold to Japanese manufacturing facilities here in this country, in third countries, and in Japan, and to assure that competitive United States repair parts, accessories and maintenance equipment are sold to support the growing volume of Japanese vehicles being used worldwide.

In developing our automotive parts trade initiative we have been working very closely with the U.S. industry.

Another reason I am convinced that we will succeed in this effort, aside from our partnership with industry, is the very strong and almost unanimous support we have received from the U.S. Congress, and it's from both sides of the aisle. The Japanese take the fact very seriously.

Now a very direct way to promote increased business between the United States and Japanese firms is to provide more opportunities for business negotiations to take place. As part of our trade initiative, we have over the past year sponsored several events to achieve this objective culminating in the executive trade mission which I led to Japan this month.

Our automotive parts trade initiative includes trade facilitation. We have set up a joint committee with MITI in Japan and the Department of Commerce here to oversee this initative. It includes aspects relating to trade policy where we will identify any barriers that exist and seek to negotiate their removal.

It also deals with export promotion and information dissemination. We are holding many export promotion activities on the specific issue. We are getting information out through seminars and direct mailing to United States parts suppliers about the opportunities that exist in Japan.

The first meeting of the joint U.S. Department of Commerce-MITI Committee was held at the conclusion of our trade mission. It was held on this past April 11. We clearly stated our objectives to the Japanese. We clearly stated the objectives of the U.S. auto parts sector. And the first priority is in fact to address the structural relationship impediment that exists.

I also mentioned to the Japanese at this meeting that this was a particularly opportune time for the Japanese side to show that they are willing to take concrete steps to implement the direction that's been set, and set in good faith we believe, by Prime Minister Nakasone in his trade action plan and the direction that was set by the Maekawa report which was recently presented to Prime Minister Nakasone.

The United States trade deficit with Japan was $50 billion last year, of which auto and auto parts made up almost $24 billion, and I reminded the Japanese that a British statesman had said that you can't cross a large chasm by taking two small steps; you've got to make a giant leap. And I told them that when $24 billion of the $50 billion deficit was in autos and auto parts that this was an opportunity for the Japanese to take a giant leap forward and that we expected results.

But again, I did not ask the Japanese to make less than competitive decisions. I asked them merely to give our companies the opportunity to compete fairly for their business in Japan, for their business in third markets, and particularly for the business to supply the Japanese companies located in the United States.

And while we're building up these long-term relationships, Senator, I also told them we needed clear indications of progress along the way. We needed to see sales results in the near future where U.S. products have competitive advantage and comparative advantage.

Whether this will succeed, Senator, only time will tell. Only sales will be a measure of our ability to achieve success. Thank you.

[The prepared statement of Mr. Goldfield, together with attachments, follows:]

PREPARED STATEMENT OF H.P. GOLDFIELD

Thank you Mr. Chairman, members of the committee. I appreciate this opportunity to address the problems of the U.S. automotive parts industry and what the Administration is doing to tackle them.

There was a time when one heard allegations that U.S. auto parts manufacturers could not sell to Japanese vehicle manufacturers because their products were overpriced and lacked the assurances of quality and delivery the Japanese are known to expect. This simply is no longer the fact. The U.S. auto parts industry has evolved into a world class producer. Competition from foreign suppliers in the domestic and export markets impinging on traditional customers has forced U.S. suppliers to reduce costs, improve quality, and assume greater responsibility for inventory management. In addition, U.S. companies have applied even more resources to assuring that their products and manufacturing processes incorporate the most advanced technology. Some companies have fallen by the wayside. Those now in the industry know how to meet the competition.

In the past, we also heard arguments that the U.S. auto parts manufacturers lacked the required commitment to do business in Japan and relied on exports only to dispose of excess inventory. This too is no longer true. I have seen first hand that U.S. parts manufacturers are committed to developing and maintaining reliable supplier relationships with Japanese vehicle manufacturers.

Japanese automobile assembly facilities in the United States offer natural markets for high quality, low cost U.S. suppliers. High shipping costs for parts and even higher start up costs for new investments in parts production facilities give U.S. made parts a distinct price advantage over Japanese competition in the U.S. market. Disregarding economic logic, Japanese automobile manufacturers have been hesitant to purchase U.S. made original equipment auto parts. Even when the economics clearly favor the U.S. suppliers, such as in the case of Japanese assembly facilities in the United States, Japanese purchasing agents in Tokyo prefer to purchase from their traditional sources.

The primary impediment to sales by U.S. parts producers to Japanese vehicle manufacturers is the long-term, "family-like" relationships between Japanese vehicle producers and their traditional suppliers. These relationships discourage Japanese vehicle manufacturers from sourcing from U.S. parts producers and have encouraged Japanese suppliers to follow their customers to the U.S. These traditional relationships act to bar U.S. suppliers from shipping to Japanese vehicle producers in both

Japan and in the United States. We intend to convince the Japanese vehicle manufacturers that sourcing from U.S. parts producers makes good business sense; and, it has the added advantage of making good political sense.

Last year, we initiated the "Automotive Parts Trade Initiative" to improve opportunities for the domestic suppliers of automotive parts, accessories, and maintenance and repair equipment. We set clear goals: to see to it that competitive U.S. auto parts are sold to Japanese manufacturing facilities here in this country, in third countries, and in Japan; and to assure that competitive U.S. repair parts, accessories and maintenance equipment are sold to support the growing volume of Japanese vehicles being used worldwide. We will work to enhance the ability of U.S. suppliers to compete in the difficult Japanese business environment, while at the same time we will apply pressure to Japanese business and political leaders to allow the natural laws of supply and demand to determine sales of auto parts. If the marketplace is allowed to function, U.S. made parts will be component parts of Japanese made cars.

The Japanese business environment presents unique cultural challenges to most American businessmen. For years, our analysts and trade experts have provided U.S. businessmen with essential information and assistance in establishing effective business relations with the Japanese. Through working with the Office of the United States Trade Representative, and in the inter-agency process, we have fought for changes in Japanese purchasing practices and for the elimination of tariffs and other trade barriers. Our Auto Parts Trade Initiative combines and raises the stakes of both of these efforts.

In developing our Auto Parts Initiative, we have been working very closely with the U.S. industry. Our overall strategy reflects a consensus between the public and private sectors here on what each of us needs to do to achieve our goals. U.S. industry recognizes that it must be competitive -- and that staying competitive requires constant effort. The U.S. Government recognizes its responsibility to assure that any competitive U.S. industry, such as auto parts, has the opportunity to translate its competitiveness into sales unimpeded by unfair or unreasonable trading practices. These are the commitments implicit in our Auto Parts Trade Initiative. I am confident that together we can succeed.

Another reason I am convinced that we will succeed is the cooperation I have seen throughout the Federal Government on this endeavor. We have received strong support from the State Department and the Office of the United States Trade Representative, as well as from many members of Congress. This

cooperation is essential and the Japanese take it very seriously. With this united front, we are both determined and confident that this important business/government partnership will succeed.

A very direct way to promote increased business between U.S. and Japanese firms is to provide more opportunities for business negotiations to take place. As part of our Initiative, we have over the past year sponsored several events to achieve this objective, culminating in an Executive Level Trade Mission which I led to Japan earlier this month.

In August 1985, executives of nine Japanese companies traveled to the United States on a buying mission to attend the Automotive Parts and Accessories Association (APAA) show in Chicago. Approximately 50 U.S. companies had meetings with the Japanese. This was the first time in several years that a Japanese automotive parts buying mission had come to the United States. We worked closely with the Japan Automobile Manufacturers Association (JAMA) and the Japanese Ministry of International Trade and Industry (MITI) to assure a strongly represented mission.

Last November, the Department of Commerce sponsored a pavilion at the Tokyo Motor Show in which 13 U.S. companies participated. This was the first time there had been an American parts pavilion at the Tokyo Motor Show, the premier automotive trade show in Japan.

As I already mentioned, earlier this month I led an Executive Level Trade mission to Japan. Over the course of six months, Department of Commerce experts worked closely with the American embassy in Tokyo, MITI, and JAMA in putting together an exhausting schedule for the group of 18 senior executives representing the 12 prominent U.S. auto parts firms that participated in the mission. The group assembled in Washington on April 4 and we put the executives through a rigorous day-long briefing at the Department of Commerce and the White House.

When we arrived in Japan, U.S. Embassy officials and the American Chamber of Commerce in Japan assisted by conducting technical discussions on doing business in Japan. We then met with MITI and JAMA officials which set the stage for individual business meetings. I stressed that Japanese vehicle manufacturers must incorporate U.S. parts producers into their supply networks in Japan and in the U.S. I warned the Japanese of the strong support for improvement in the U.S.-Japan automotive trade imbalance in the White House and in the Congress. I reminded them that the automotive trade deficit accounts for about half of the total U.S.-Japan deficit -- $24 billion out of the $50 billion deficit in 1985. I urged cooperation, stressing that the market offers

plenty of room for all. At the same time, I warned that a mass migration of Japanese auto parts makers to the U.S. would create redundant capacity with serious economic and political consequences.

Individual mission participants then met with technical and purchasing decision-makers of Japanese vehicle manufacturers. Over three days, 80 one-on-one business meetings between mission participants and Japanese parts and vehicle manufacturers were held. Meetings were scheduled for 90 minutes, with two meetings in the morning and two meetings in the afternoon. These meetings were supplemented by a number of informal events at which senior Japanese manufacturing executives began the long confidence-building discussions with their U.S. counterparts. Long-term business arrangements with Japanese companies depend on this type of relationship. All of the participants found the meetings useful and were frankly surprised at the serious consideration their business proposals received. They attributed much of the success to the unity of purpose clearly communicated by the U.S. side.

The business meetings produced several indicators of progress. The Japanese companies asked some of the U.S. companies to visit their manufacturing facilities, requested supplementary engineering presentations, arranged for follow-up meetings with their U.S.-based purchasing offices, and requested price quotations. We plan to meet with the Mission participants in early June to determine if progress is continuing.

While the parts executives met with the their potential customers, I met with senior Japanese government officials from the Ministry of Foreign Affairs, the Ministry of Transport, and businessmen from Keidanren, the politically influential Japanese industrialist group. I reiterated my concerns about market access to these groups.

The mission received significant press attention, both in Japan and in the press here. We will continue to maintain a high political and public relations profile to keep open the "windows" created by this mission and to assure that sales actually result.

To assist in preparing U.S. companies for effective business discussions with the Japanese, we have stepped up our efforts to familiarize them with basic information on the Japanese market and Japanese business practices. Over the next year we will either sponsor or lend assistance to numerous market familiarization seminars. This past January we supported the Northeast-Midwest Congressional Coalition in its successful conference in Southfield, Michigan, on selling auto parts to the Japanese. We applaud such efforts by the Congress and similar activity by private sector groups. We can all contribute to improving the prospects for U.S. industry.

Impediments to this U.S. industry sector cannot be overcome solely by facilitation of business contacts and providing information. The deep rooted and complex structural relationship between Japanese vehicle producers and their suppliers must be addressed by both the Japanese and U.S. Governments. We must also address concern by U.S. industry that regulatory practices in the Japanese Ministry of Transport (MOT) and other governmental agencies impede their ability to market their products. To provide a forum where these and other issues can be discussed, the Department of Commerce and MITI recently established a joint committee on the auto parts issue. This committee will examine actual experiences of U.S. parts producers to determine if government policies or programs are necessary to resolve the problems in U.S./Japanese automotive parts trade. The joint Commerce/MITI committee will guarantee U.S. suppliers the outlet needed for quickly addressing difficulties they may encounter in selling to Japan and to Japanese companies.

The first meeting of the joint Commerce/MITI committee was held at the conclusion of the Executive Trade Mission on April 11. At that meeting, my Commerce colleague, Clyde Prestowitz, Secretary Baldrige's Counselor for Japan, and I clearly stated our objectives in the auto parts sector. First priority is to address the structural relationship impediment.

In Japan, replacement parts suppliers are frustrated by the periodic inspection system. U.S. suppliers have told me that Japanese vehicle safety inspectors have refused to approve cars that have been repaired with U.S. parts. When I raised the inspection problem in meetings with officials from MOT, I was assured there is no barrier. To resolve any misunderstandings on the inspection issue, we may conduct an unannounced "test case", and follow a Japanese car equipped with U.S. parts through the inspection system. Should that vehicle fail, we will bring the test case to the committee for resolution.

Suppliers of replacement and repair parts are faced with additional problems. Even in the United States, most repair parts are sold through Japanese car dealers. We are currently studying to determine if Japanese vehicle manufacturers "tie" the supply of new vehicles to the exclusive use, by the dealers, of "genuine" replacement parts. If we find market-distorting activity occurring, we will bring the issue before the Joint Committee.

My staff will continue to survey the U.S. parts industry to identify any other barriers to sales in the Japanese market, including any residual tariffs or customs clearance problems.

We suggested that MITI, as part of its participation in the Joint Committee, consider the establishment of a system to identify the types and quantities of U.S. parts purchased by Japanese vehicle manufacturers for OE and aftermarket use. This information will be essential in measuring the success of our efforts to penetrate the Japanese market.

Finally, as you have probably read in the press, the U.S. Government has proposed auto parts as the next Market Oriented, Sector Specific (MOSS) category. The Japanese have not yet responded, but we are hopeful that they will agree. There is a consensus in Washington and in the auto parts industry that MOSS can be an effective vehicle for maintaining the level of political pressure necessary to foster changes in the Japanese system. We intend to use MOSS or the market-opening initiatives already underway, or both avenues, if possible, to bring about a successful conclusion to this effort. To this end, it is necessary that we present a unified front to achieve our objective. It is not the forum we use that is important. Getting results is what counts; and the only results that count are completed purchase orders.

We have demonstrated to the Japanese that our industry has committed sellers. They must now show us that they are committed buyers. This Administration is committed to free and fair trade. The Japanese now have the opportunity to demonstrate that they share that commitment.

Thank You.

ATTACHMENTS


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Attachment A

U.S. Automotive Parts Trade With Japan

(millions of dollars)

| | U.S. Imports from Japan | U.S. Exports to Japan | Balance of Trade with Japan |
|---|---|---|---|
| 1972 | 225 | 16 | (209) |
| 1980 | 1,103 | 97 | (1,006) |
| 1981 | 1,445 | 105 | (1,340) |
| 1982 | 1,408 | 122 | (1,286) |
| 1983 | 1,640 | 134 | (1,506) |
| 1984 | 2,415 | 167 | (2,249) |
| 1985 | 3,005 | 191 | (2,814) |

Source: Compiled by U.S. Department of Commerce

Attachment B

Executive Trade Mission Participants

The Allied Signal Corporation, Garrett Automotive Products Companies

A. O. Smith Corporation, Automotive Products Company

Champion Spark Plug

Cooper Industries, Wagner Division

Federal-Mogul Corporation

Fel-Pro, Inc.

Kaiser Aluminum & Chemical Corporation

The Kingston-Warren Corporation

Libbey-Owens-Ford Company, LOF Plastics, Inc.

Dan T. Moore Company

The Timken Company

TRW, Inc.

Attachment C

## Japanese Companies With Which Executive Trade Mission Participants Met

Japanese Vehicle Manufacturers:

Daihatsu
Fuji Heavy Industries (Subaru)
Hino
Honda
Isuzu
Mazda
Mitsubishi
Nissan
Suzuki
Toyota

Japanese Auto Parts Companies:

Diesel-Kiki
Hashimoto Forming
Ikeda Bussan
Kinugawa Rubber
Kobe Steel
Nihon Radiator
Nippon Denso
Shatai Kogyo
Shiroki Corp.
Tachikawa Spring
Toshiba

Attachment D

THE WHITE HOUSE

WASHINGTON

March 27, 1986

To the Members of the
Executive Trade Mission to Japan:

I am pleased to send warm greetings as you prepare to depart for your visit to Japan. Yours is a vital mission to expand sales opportunities for U.S. automotive parts suppliers with Japanese vehicle manufacturers. I commend all of you for your participation in this important effort which can work to the benefit of both the United States and Japan.

The representatives of some of America's leading automotive parts firms are participating in the mission. They know how much we have to offer the Japanese market and what benefits would accrue to both sides of the transaction if our trade in these areas can be increased.

Your mission is a fine example of international cooperation among friends. It reflects the willingness of both countries to work together constructively.

Godspeed.

Ronald Reagan

DAN QUAYLE
INDIANA

524 HART SENATE OFFICE BUILDING
(202) 224-5623

INDIANAPOLIS OFFICE
ROOM 447, 46 EAST OHIO STREET
INDIANAPOLIS, IN 46204
(317) 269-5555

Attachment E

# United States Senate

WASHINGTON, DC 20510

COMMITTEES
ARMED SERVICES
BUDGET
LABOR AND HUMAN RESOURCES

April 8, 1986

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Apr 10 1 [illegible] 86

The Honorable Malcolm Baldrige
Secretary of Commerce
Herbert C. Hoover Building
14th and Constitution Avenue
Washington, D.C. 20230

Dear Mr. Secretary:

I want to voice my strong support for the Auto Parts Trade Initiative now being undertaken by the Department of Commerce in cooperation with the Japanese Ministry of International Trade and Industry (MITI), and spearheaded by Assistant Secretary for Trade Development H.P. Goldfield.

Earlier discussions between your staff and mine indicate that this important program will bring U.S. automobile parts makers in direct contact with Japanese automobile producers and will be monitored by a joint U.S./Japanese government committee. I understand the program is designed to address specific barriers to closer commercial relationships between Japanese producers and U.S. suppliers.

The result of this initiative should be of benefit to both U.S. based automotive suppliers and Japanese automakers, whether their operations are located here or in Japan. Obviously, success in this area, among others, would have a very positive impact on our political relations as well as our economic relationship with the Japanese people; our friends and allies.

I know that an Executive Automotive Parts Trade Mission, composed of U.S. auto parts company executives and Commerce Department officials is now in Japan to begin talks with MITI and the Japanese automakers. Several of the companies participating in the mission operate facilities in my state of Indiana, which ranks at the top nationwide in the production of automotive and transportation parts.

I commend you for this creative and constructive effort. This approach represents a positive means to assist our domestic automotive parts suppliers, while working in a mutually beneficial way to address dangerous and unnecessary trade friction with Japan. I look forward to learning the results of this first contact between U.S. and Japanese producers, and I hope to continue to play an active role in encouraging Indiana companies and Japanese officials to take part.

NORTHWEST OFFICE
5130 SOUTH ARLINGTON #103
MERRILLVILLE, IN 46410
(219) 937-5180

NORTHEAST OFFICE
340 FEDERAL BUILDING
FORT WAYNE, IN 46802
(219) 422-1505

SOUTHWEST OFFICE
127 NW 7TH STREET
122 FEDERAL BUILDING
EVANSVILLE, IN 47708
(812) 465-6313

SOUTHEAST OFFICE
JEFFERSONVILLE FEDERAL DEPOT
1201 EAST 10TH STREET
ROOM 103, BUILDING 66
JEFFERSONVILLE, IN 47132
(812) 288-3377

I appreciate the close contact your office has maintained with my staff since the inception of this program, and look forward to working with you in the near future to ensure the ongoing success of this initiative.

Sincerely,

Dan Quayle
U.S. Senator

DQ:bam

DONALD W. RIEGLE, JR.
MICHIGAN

COMMITTEES:
BANKING, HOUSING, AND URBAN AFFAIRS
COMMERCE, SCIENCE, AND TRANSPORTATION
BUDGET

United States Senate

WASHINGTON, DC 20510

612388

March 8, 1986

'86 APR -9 P1:56

Malcolm Baldrige
Secretary
Department of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

I am writing to express my concern that Japanese automotive assemblers continue to freeze out American auto parts manufacturers not only in Japan but now in the United States as well.

American manufacturers have long been harmed by the Japanese practice of selecting suppliers through reliance on close corporate relationships rather than open competition. Currently, United States auto parts manufacturers supply less than 1 percent of the $30 billion original equipment market in Japan, and less than 20 percent of the parts used for Japanese auto production in the United States. In the replacement parts market, the United States market share in Japan is again less than 1 percent, and is estimated to be between 20 and 30 percent for Japanese vehicles in the United States. Unless immediate action is taken, this situation will continue to worsen.

I have actively supported efforts of Japanese auto companies to locate job creating plants in the United States. But I am deeply concerned by reports that these manufacturers now plan to bring their market practices along with them. An emerging pattern is for the traditional suppliers of a Japanese auto assembler to locate their own plants near the new Japanese auto assembly plant.

The value of having Japanese auto assembly plants located in the United States would be negated if key components are largely purchased from the same Japanese companies that have always gotten the business. This pattern would actually inflict even greater harm on American industry if, as seems to be the pattern, Japanese parts manufacturers build their U.S. plants with capacity sufficient not only to supply the Japanese auto assembler but also to take a larger share of the U.S. auto parts market.

I am convinced that continued restricted access to Japanese markets for these and other products threatens the stability of the world trading and financial systems. I am confident that United States parts manufacturers can demonstrate their strong competitive abilities unless they are denied a fair opportunity to compete.

To date, the Administration's trade policies have failed to halt this importation of Japanese industrial practices into the United States. The success of the current trade mission must be judged by the progress or lack of progress on this issue.

Sincerely,

Donald W. Riegle, Jr.

PAUL SIMON
ILLINOIS

COMMITTEES
LABOR AND HUMAN RESOURCES
JUDICIARY
RULES AND ADMINISTRATION

# United States Senate

WASHINGTON, DC 20510

March 19, 1986

86 MAR 21 P

The Honorable Malcolm Baldrige
Department of Commerce
14th between E and Constitution Avenue NW
Washington DC 20230

Re: Auto Parts Trade Mission

Dear Secretary Baldrige:

I was pleased to hear of the Executive Trade Mission to Japan in April being coordinated by your able Assistant Secretary for Trade Development. I would like to be supportive in any way possible.

Just last week during visits to my office by a group of foundry and castings manufacturers from Illinois, I was disappointed to learn that Wagner Castings Company of Decatur, IL, for example, would never be given the opportunity to even bid for work at the Chrysler-Mitsubishi plant in Bloomington-Normal. This is all the more disappointing in light of my own efforts to have the Diamond Star plant located in Illinois. Out-sourcing engine and transmission parts to Japan, especially when Illinois has idle capacity in the immediate vicinity that could deliver competitive products, makes Diamond Star less of a triumph for the declining manufacturing base in Illinois.

Secretary Coldfield indicated several Illinois CEO's will be included on this mission. I will hope to get a first hand account of the visit from them on their return. Additionally, I would like to request a written report on the mission from the Department upon its completion.

As always, Mr. Secretary, I am grateful to you for alerting me to this most timely initiative. I find myself in agreement with you on many important issues.

My best wishes.

Cordially,

Paul Simon
United States Senator

cc: Secretary Coldfield
Bill Sargent
Robert E. Watkins

230 S. Dearborn
Kluczynski Bldg. 38th Floor
Chicago, IL 60604
312/353-4952

3 West Old Capitol Plaza
Suite 1
Springfield, IL 62701
217/492-4960

8787 State St.
Suite 212
East St. Louis, IL 62203
618/398-7707

250 West Cherry
Room 115-B
Carbondale, IL 62901
618/457-3653

HENRY J. HYDE
9th District, Illinois

COMMITTEES
JUDICIARY
FOREIGN AFFAIRS
INTELLIGENCE

2104 Rayburn House Office Building
Washington, DC 20515
(202) 225-4561

# Congress of the United States
## House of Representatives
### Washington, DC 20515

March 26, 1986 86 APR-1 P1:00

Honorable Malcolm Baldrige
Secretary
Department of Commerce
Washington, D.C. 20230

Dear Mac:

The importance of the upcoming Executive Level Auto Parts Trade Mission to Japan cannot be over emphasized. The success of this mission will have a positive overall impact on dampening the fires of protectionism here in Congress. I strongly support this initiative and eagerly await the mission's return and its report on the progress made.

I am encouraged by the receptive attitude of Japan's five major auto makers in sourcing U.S. parts, and I certainly understand their skepticism in departing from the practice of doing business exclusively with their traditional, local suppliers. However, entering a cooperative venture with U.S. firms, the Japanese will be removing a trade barrier supported by superficial complaints which will in the long term be beneficial to her own economic future.

Our participants in this mission from private industry are investing their time and money to prove to the Japanese the depth of their commitment to work in cooperation with them in meeting the criteria for quality parts that can be produced on schedule so as not to delay production. Our companies now need the opportunity to build a supplier relationship with the Japanese auto makers that can only come when the their markets are truly open to us.

As I stated above, I am encouraged that the Japanese auto makers were receptive to procuring U.S. auto parts for their production facilities in this country as well as for those in Japan. However, actions speak louder than words. We must have more than promises as ammunition to defeat the protectionist movement in Congress.

Very truly yours,

Henry J. Hyde

HJH:nns

Attachment F

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DEPARTMENT OF COMMERCE

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INFO

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UNCLAS SECTION 01 OF 04 TOKYO 07629

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INFO EB2B/AACC;TD;ITA/DAS/MVATKINS
- EB2B/OAIA/;AACC/TD/ITA/PGENTNER
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- E2CB;OSTP/TD/ITA/;ICZAIKA
- 4410/OJ/EAP/IEP/ZBOLDEN

E.O. 12356: N/A
TAGS: BEXP, JA
SUBJECT: THE EXECUTIVE AUTO PARTS TRADE MISSION TO
- JAPAN

SUMMARY

1. THE U.S. EXECUTIVE LEVEL AUTO PARTS MISSION TO JAPAN WAS SUCCESSFUL IN MEETING ITS PRIMARY OBJECTIVE. THAT OBJECTIVE WAS TO GAIN ACCESS FOR U.S. AUTO PARTS SUPPLIERS TO HIGH LEVEL TECHNICAL & PURCHASING DECISION MAKERS OF JAPANESE AUTO MAKERS AS A FIRST STEP IN FORGING THE CLOSE SUPPLIER RELATIONSHIPS NECESSARY FOR MEANINGFUL LONG TERM BUSINESS RELATIONSHIPS. THE MISSION WAS LED BY A/S GOLDFIELD. OTHER PARTICIPATING USDOC OFFICIALS INCLUDED: DAS WATKINS, OJ OFFICE DIRECTOR SMITH, TD/OAIA/APSD INTERNATIONAL TRADE SPECIALIST GENTNER, COORDINATOR OF SPECIAL MISSIONS OFFICE ZIMKA, FCS OFFICER THURWACHTER AND U.S. EMBASSY COMMERCIAL SPECIALIST TAMADA.

2. THE 12 U.S. AUTO PARTS FIRMS IN THE MISSION WERE CAREFULLY SELECTED BY THE OFFICE OF AUTOMOTIVE AFFAIRS & CONSUMER GOODS ON THE BASIS OF COMPETITIVENESS AND PRODUCT LINE. THESE FIRMS WERE COMPETITIVE IN TERMS OF PRICE, QUALITY, DELIVERY CAPABILITY AND, VERY SIGNIFICANTLY, TECHNICAL SOPHISTICATION. FOLLOWING 3 DAYS OF TECHNICAL "ONE-ON-ONE" MEETINGS WITH JAPANESE AUTO MAKERS, THE U.S. FIRMS AGREED THAT THE MISSION HAD BEEN AN EXTREMELY VALUABLE VEHICLE FOR GAINING ACCESS TO HIGH LEVEL TECHNICAL AND PURCHASING DECISION MAKERS. MOST HAD VERY POSITIVE LEADS FROM THE INITIAL TECHNICAL DISCUSSIONS, AND WILL BE FOLLOWING UP WITH MORE INTENSIVE TECHNICAL DISCUSSIONS AND PLANT VISITS.

3. THE U.S. FIRMS INDICATED THAT, DESPITE GOJ'S HEAVY POLITICAL PRESSURE ON MAJOR EXPORTERS (E.G., AUTO MAKERS) TO IMPORT MORE, THEY REMAIN VERY RELUCTANT TO BUY U.S. AUTO PARTS. JAPANESE AUTO MAKERS EXPRESSED A GREAT DEAL OF INTEREST IN SOME OF THE TECHNOLOGY THE U.S. FIRMS WERE OFFERING BUT, TRUE TO TRADITION, WERE SIMPLY INTERESTED IN PURCHASING THE TECHNOLOGY AND THEN MAKING THE PRODUCTS THEMSELVES. THE U.S. FIRMS APPLAUDED USDOC AND A/S GOLDFIELD FOR ORGANIZING THE MISSION, WHILE URGING USG TO MAINTAIN POLITICAL INTEREST ON AUTO PARTS AT A HIGH LEVEL IN ORDER TO KEEP THE "WINDOWS" CREATED BY THIS MISSION OPEN.

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THIS [illegible] DIVIDED INTO 3 SECTIONS: [illegible] OF THE MISSION AND ITS [illegible] DELEGATION TO THE JAPANESE GOVERNMENT AND [illegible] ORS. [illegible] FROM THE U.S. AUTO PARTS [illegible] WHICH TOOK PART IN THE MISSION. THIS WILL BE REPORTED IN SEPTEL.

- MISSION EVENTS

4. THE MISSION ORIGINATED IN WASHINGTON D.C. ON FRIDAY, APRIL 4, WITH A DAY OF HIGH LEVEL INTERAGENCY BRIEFINGS AND A RECEPTION HOSTED BY USDOC. THE PARTICIPANTS ARRIVED IN JAPAN ON SUNDAY NIGHT, APRIL 6. OFFICIAL MISSION ACTIVITIES IN JAPAN (4/7) BEGAN WITH A BREAKFAST BRIEFING BY THE AMERICAN CHAMBER OF COMMERCE, JAPAN. ACCJ PRESIDENT HERBE HAYDE (CHAIRMAN OF BURROUGHS), ASSISTED BY GM'S GENE LEONARD AND ROBERT OAKES AND CHRYSLER'S BURT BEAUCAMP, PROVIDED VALUABLE INSIGHTS ON DOING BUSINESS IN JAPAN IN GENERAL AND ON SELLING AUTO PARTS IN PARTICULAR. THEY ALSO PROVIDED USEFUL TIPS FOR CONDUCTING THE TECHNICAL DISCUSSIONS.

5. THE MISSION THEN PROCEEDED TO THE U.S. EMBASSY FOR A BRIEFING BY AMBASSADOR MANSFIELD AND THE COUNTRY TEAM. THE MORNING CONCLUDED WITH A CALL ON MITI, WHERE THE MISSION MET FOR OVER AN HOUR WITH VICE MINISTER WAKASUGI, DIRECTOR GENERAL SUGIYAMA (MACHINERY & INFORMATION INDUSTRIES BUREAU) AND OTHER MITI OFFICIALS. A/S GOLDFIELD ASKED FOR MITI'S COOPERATION IN ENCOURAGING JAPANESE AUTO MAKERS TO INCORPORATE MORE U.S. AUTO PARTS SUPPLIERS INTO THEIR TRADITIONALLY CLOSED "KEIRETSU" SUPPLIER NETWORKS. HE ALSO STRESSED THE HIGH QUALITY AND TECHNICAL CAPABILITIES OF U.S. SUPPLIERS. IN ADDITION, DAN T.

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E.O. 12356: N/A
TAGS: BEXP, JA
SUBJECT: THE EXECUTIVE AUTO PARTS TRADE MISSION TO

MOORE GAVE A SHORT SPEECH ON BEHALF OF THE PRIVATE SECTOR PARTICIPANTS.

6. AFTER HOSTING A LUNCHEON FOR MITI OFFICIALS, THE MISSION PROCEEDED TO JAMA (JAPAN AUTO MAKERS - ASSOCIATION) TO MEET WITH TOP-LEVEL REPRESENTATIVES OF THE 9 JAPANESE AUTO MAKERS TAKING PART IN THE TECHNICAL DISCUSSIONS FROM 4/8 TO 4/10. AGAIN, A/S GOLDFIELD STRESSED THE IMPORTANCE OF JAPANESE AUTO MAKERS INCORPORATION U.S. AUTO PARTS MAKERS INTO THEIR SUPPLY NETWORKS BOTH IN JAPAN AND THE UNITED STATES. THE EVENING CONCLUDED WITH AN EVENING RECEPTION FOR ALL JAPANESE & AMERICAN MISSION PARTICIPANTS HOSTED BY DCM ANDREWS AT HIS RESIDENCE.

7. OVER SIX ONE-ON-ONE TECHNICAL MEETINGS BETWEEN THE 13 U.S. AUTO PARTS SUPPLIERS AND THE 9 MAJOR JAPANESE AUTO MAKERS WERE HELD FOR THE NEXT 3 DAYS AT THE OKURA HOTEL. GENERAL MEETINGS WITH SELECTED JAPANESE AUTO PARTS SUPPLIERS WERE ALSO SCHEDULED.) MEETINGS WERE CONDUCTED IN PRIVATE ROOMS AND WERE SCHEDULED FOR 90 MINUTES--2 MEETINGS IN THE MORNINGS AND 2 MEETINGS IN THE AFTERNOONS. MANY MEETINGS EXTENDED INTO THE EVENING OR LUNCHEON HOUR. PARTICIPATING FIRMS WERE:

| US AUTO PARTS SUPPLIERS | JAPANESE AUTO MAKERS |
|---|---|
| A.O. SMITH AUTOMOTIVE | DAIHATSU |
| CHAMPION SPARK PLUG | |
| FUJI HEAVY INDUSTRIES | |
| COOPER INDUSTRIES (WAGNER) | HINO |
| FEDERAL MOGUL WORLD TRADE | HONDA |
| FEL-PRO INTERNATIONAL | ISUZU |
| GARRETT AUTOMOTIVE | MAZDA |
| KAISER ALUMINUM & CHEMICAL | MITSUBISHI |
| KINGSTON-WARREN CORP. | NISSAN |
| LOF PLASTICS, INC. | SUZUKI |
| DAN T. MOORE COMPANY | TOYOTA |
| TIMKEN BEARING COMPANY | |
| TRW, INC. | |

JAPANESE AUTO PARTS SUPPLIERS

8. WHILE THE TECHNICAL DISCUSSIONS WERE HELD ON A/S GOLDFIELD LED THE MOS DELEGATION TO THE MINISTRY OF FOREIGN AFFAIRS (MOFA), MINISTRY OF TRANSPORT (MOT), KEIDANREN AND JAPAN (JAPAN AUTO PARTS MAKERS ASSOCIATION).

9. MOFA. THE MOS DELEGATION MET WITH DIRECTOR GENERAL OF THE ECONOMIC BUREAU KISHINO. DIG KUROKAWA ASKED A/S GOLDFIELD'S VIEWS ON AN AUTO PARTS MOSS. DIG KUROKAWA FELT THE MOSS IN GENERAL HAD BEEN BROUGHT OUT IN A CONSTRUCTIVE SPIRIT AND THAT THE JAPANESE SIDE MUST LEARN NOT TO BE INTIMIDATED BY IT. RATHER, THEY MUST WORK WITHIN MOSS IN A POSITIVE WAY. WE AGREED THAT MOSS SHOULD FOCUS ON RESOLVING ALL PROBLEMS AND BARRIERS TO TRADE IN ANY GIVEN SECTOR, RATHER THAN FOCUSING NARROWLY ON GOVERNMENT REGULATIONS ALONE.

10. MOT. THE USG REPRESENTATIVES MET WITH DIRECTOR GENERAL OF THE LAND TRANSPORT AND ENGINEERING DEPARTMENT, T. KANBE, AND DIRECTOR GENERAL OF THE INTL. TRANSPORT & TOURISM BUREAU, S. OKIOKA AS WELL AS OTHER MOT STAFF MEMBERS. MOT CONTINUES TO CLAIM THAT THERE ARE NO ACTUAL LEGAL RESTRICTIONS ON THE USE OF NON-OE AUTO-PARTS PER SE WHICH WOULD PREVENT A CAR FROM PASSING THE BIANNUAL (3 YEARS AFTER PURCHASE AND EVERY 2 YEARS AFTER THAT) INSPECTION (SHAKEN). MOT POINTED OUT THAT IF A CAR WITH A NON-OE PART DID FAIL THE INSPECTION, IT COULD POSSIBLY BE THAT THE AUTO PART PREVENTED THE CAR FROM PASSING SOME TEST OR STANDARD APPLIED AGAINST THE CAR ITSELF (E.G., BE
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UNCLAS SECTION 03 OF 04 TOKYO 07839

FOR 6820/EAGCC/TD/ITA/CREITZ

INFO 6820/AGCC/ITD/ITA/BAS/RWATKINS

- 6820/OA/AAGCC/TD/ITA/PGEHTHER
- 6820/AIA/AAGCC/TD/RREICH
- 6820/OSTP/TD/ITA/BIANCA
- 6410/OJ/EAP/IEP/SBOWDEN

E.O. 12356: N/A

TAGS: BEXP, JA

SUBJECT: THE EXECUTIVE AUTO PARTS TRADE MISSION TO

EMISSION TEST, DISTANCE FROM UNDERCARRIAGE TO GROUND, ETC.).

11. (NOT (CONTINUED) A/S GOLDFIELD EXPRESSED HIS VIEW THAT MOT AND USDOC NEED TO WORK TOGETHER TO RESOLVE ANY MISUNDERSTANDINGS ON THE INSPECTION ISSUE. M/S [illegible] AGREED TO ANSWER WRITTEN QUESTIONS ON THE INSPECTION SYSTEM SUBMITTED TO MOT BY USG, AS PER A/S GOLDFIELD'S REQUEST. A/S GOLDFIELD AGREED TO PROVIDE MORE SPECIFIC CASES FROM U.S. INDUSTRY. HE ALSO OPENED UP THE POSSIBILITY THAT A U.S. TRADE ASSOCIATION MIGHT PUT SOME CARS, EQUIPPED WITH NON-OE AMERICAN AUTO PARTS, THROUGH THE SHAKEN SYSTEM, TO CONFIRM IF, IN FACT, CARS ARE BEING REJECTED ON THE BASIS OF NON-OE PARTS.

12. AMBASSADOR: THE USG DELEGATION MET WITH DIRECTOR G. [illegible] OF MITI'S INTERNATIONAL ECONOMIC DEPARTMENT, FOR A LIVELY DISCUSSION OF GENERAL ECONOMIC ISSUES WHICH AFFECTED JAPAN AND ITS TRADE SURPLUS, WITH PARTICULAR FOCUS ON THE AUTOMOTIVE INDUSTRY.

13. JAPIA (JAPAN AUTO PARTS INDUSTRY ASSOCIATION): THE USG DELEGATION MET WITH EXEC. CHAIRMAN S. OKAWA, NGK SPARK PLUG), JAPIA EXEC. DIRECTOR Y. [illegible]AMA, AND TOP-LEVEL REPRESENTATIVES OF A DOZEN MAJOR JAPANESE AUTO PARTS MAKERS. A/S GOLDFIELD STRESSED COOPERATION IN A MARKET WHERE THERE WAS "PLENTY OF ROOM FOR ALL." HE ALSO CAUTIONED, HOWEVER, AGAINST A MASS MOVEMENT OF JAPANESE AUTO PARTS MAKERS TO THE U.S., CREATING A PROBLEM OF "REDUNDANT CAPACITY."

14. ON APRIL 9, THE USG DELEGATION AND ABOUT 8 INDUSTRY PARTICIPANTS TRAVELLED TO NAGOYA TO TOUR TOYOTA FACILITIES. THE TOYOTA RECEPTION WAS HOSTED BY SENIOR VICE PRESIDENT TSUJI. CHAIRMAN AND CEO EIJI TOYODA ALSO PARTICIPATED. ON APRIL 10, A SIMILAR GROUP (DIFFERENT INDUSTRY PARTICIPANTS DUE TO SCHEDULING OF TECHNICAL MEETINGS) TRAVELLED TO NISSAN'S OPPAMA PLANT FOR A TOUR OF THOSE FACILITIES. THE U.S. DELEGATION WAS GREETED BY A MEMBER OF NISSAN'S BOARD OF DIRECTORS, MR. MATSUURA. THE VISITS WERE VERY PRODUCTIVE, BOTH IN TERMS OF REVIEWING

15. ON THE [illegible] OF APRIL 12, A [illegible] BY [illegible] OF THE [illegible] INTEREST [illegible] TO BE [illegible] DELIVER [illegible] PARTICIPANTS RECEIVING THEIR [illegible] PLAY. POLITICALLY IN THIS [illegible] ON THE [illegible] OF APRIL 12. ALL MEMBERS ATTENDED [illegible] SESSION WAS ALSO ATTENDED BY MINE RANKING JAPANESE AUTO EXECUTIVES, MITI REPRESENTATIVES AND AAP'S BOSSIN.

16. DURING THE COURSE OF THE MISSION, A/S GOLDFIELD ALSO GAVE INTERVIEWS TO "NIHON KEIZAI SHIMBUN", "DAILY AUTOMOTIVE NEWS", THE ASSOCIATED PRESS", "THE WALL STREET JOURNAL", REUTERS, "BUSINESS WEEK", AND "THE MACNEIL & LEHRER REPORT."

- THE MESSAGE A/S GOLDFIELD BROUGHT TO JAPAN

17. A/S GOLDFIELD INTRODUCED THE 12 INDUSTRIAL MISSION MEMBERS AS U.S. AUTO PARTS SUPPLIERS WHO WERE COMPETITIVE IN THEIR RESPECTIVE MARKETS AND TOGETHER ACCOUNT FOR OVER 30 BILLION DOLLARS IN SALES, EMPLOY OVER 200,000 WORKERS IN THE U.S. AND WHICH HAVE FACILITIES IN ALMOST EVERY STATE. HE EMPHASIZED THAT THESE U.S. FIRMS WERE INTERESTED IN SALES TO JAPANESE AUTO MAKERS IN JAPAN, IN THIRD COUNTRIES, AND LAST, BUT CERTAINLY NOT LEAST, IN THE U.S.

18. HE POINTED OUT THAT THERE WAS STRONG SUPPORT BEHIND THE AUTO PARTS ISSUE IN WASHINGTON, D.C. BOTH FROM THE WHITE HOUSE AND FROM CONGRESS. HE EMPHASIZED THAT THE SUPPORT IN CONGRESS IS BIPARTISAN AND THAT HE

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UNCLAS SECTION 04 OF 04 TOKYO 07629

FOR 6820/AACG/TD/ITA/SHEITZ
INFO 6820/AACG/TD/ITA/DAS/RWATKINS
- 6820/OAIA/AACG/TD/ITA/PGENTNER
- 6820/AIA/AACG/TD/PPECK
- 6820/OSTR/TD/ITA/[illegible]PCA
- 6410/OJ/EAP/IEP/SBOWDEN

E.O. 12356: N/A
TAGS: BEXP, JA
SUBJECT: THE EXECUTIVE AUTO PARTS TRADE MISSION TO

WILL BE TESTIFYING ON APRIL 24 BEFORE THE JOINT ECONOMIC COMMITTEE. A/S GOLDFIELD ALSO STRESSED THE RELATIONSHIP OF THE AUTO PARTS ISSUE TO RECENT STATEMENTS BY PRIME MINISTER NAKASONE AND IN THE MAEKAWA REPORT CALLING FOR INCREASED IMPORTS. HE STATED THAT AUTO PARTS ARE ESPECIALLY IMPORTANT BECAUSE THE U.S.-JAPAN TRADE DEFICIT IS NEARLY HALF AUTOMOTIVE-RELATED.

19. A/S GOLDFIELD CALLED ON JAPANESE AUTO MAKERS TO ESTABLISH SUPPLY NETWORKS IN THE STATES AND TO WORK WITH U.S. AUTO PARTS MAKERS TO INCORPORATE THEM INTO THIS NETWORK IN THE SAME WAY THEY WORKED WITH THEIR JAPANESE SUPPLIERS 30 YEARS AGO. HE CAUTIONED AGAINST "REDUNDANT CAPACITY" AND THE RESULTING FRICTION IF A LARGE NUMBER OF JAPANESE AUTO PARTS MAKERS FOLLOW THE JAPANESE AUTO MAKERS INTO THE U. . HE STRESSED THE "OPPORTUNITY FOR U.S. SUPPLIERS TO COMPETE" WAS ESSENTIAL FOR FAIR TRADE.

20. A/S GOLDFIELD STRESSED THAT THE PRIVATE-INDUSTRY MISSION MEMBERS WERE COMPETITIVE IN TERMS OF PRICE, QUALITY, DELIVERY TERMS, LONG-TERM PLANNING AND TECHNOLOGICAL SOPHISTICATION. HE EXPLAINED THAT MANY U.S. AUTO PARTS MAKERS HAD PROGRESSED IN THESE AREAS IN THE LAST 5 YEARS, IN LARGE PART BECAUSE OF THE COMPETITIVE IMPACT OF JAPANESE PRODUCTS. HE POINTED OUT THAT MANY MISSION MEMBERS NOT ONLY FULLY UNDERSTAND JAPANESE A TO INDUSTRY PRACTICES SUCH AS THE "JUST IN TIME" SYSTEM, BUT IN FACT ARE CONDUCTING THEIR U.S. BUSINESSES ON THAT BASIS. AS A RESULT, U.S. AUTO PARTS FIRMS HAVE BECOME FAR MORE INTERNATIONALLY COMPETITIVE THAN IN EARLIER YEARS.

21. WHILE NOTING THAT THE STRONGER YEN WOULD ASSIST U.S. AUTO PARTS MAKERS TO BECOME MORE PRICE COMPETITIVE WITH THEIR JAPANESE COUNTERPARTS, A/S GOLDFIELD CITED THE TRADITIONAL PURCHASING PRACTICES OF JAPANESE AUTO MAKERS WITHIN THEIR CLOSED "KEIRETSU" SUPPLY NETWORKS AS THE SINGLE GREATEST IMPEDIMENT TO THE USE OF U.S. AUTO PARTS. HE STRESSED THAT IN ADDITION TO GOJ SUPPORT OF THE USDOC AUTO PARTS TRADE INITIATIVE, SIGNS OF PROGRESS WOULD HAVE TO BE EVIDENT IN THE NEAR FUTURE. THE MOST CRITICAL INDICATION OF PROGRESS WOULD BE THE INCLUSION OF U.S. AUTO PARTS MAKERS AT THE DESIGN STAGE OF NEW [illegible] CAR MODELS, GIVING THEM THE OPPORTUNITY TO BECOME LONG-TERM SUPPLIERS.

22. A DEEP SENSE BREAKFAST FOR ALL MISSION MEMBERS WAS HELD FRIDAY, APRIL 11. THE COMMENTS MADE BY INDIVIDUAL MEMBERS WILL BE REPORTED BY SEPTEL. IN SUMMARY, HOWEVER, THE U.S. AUTO PARTS SUPPLIERS STATED THAT THE MISSION HAD BEEN VERY VALUABLE IN OPENING UP THE "WINDOW."

23. GAINING ACCESS TO THE APPROPRIATE TECHNICAL AND PURCHASING PEOPLE WAS SEEN AS THE ESSENTIAL FIRST STEP IN FORGING LONG TERM BUSINESS RELATIONSHIPS AS DE SUPPLIERS FOR JAPANESE AUTO FIRMS. THE ESTABLISHMENT OF THESE RELATIONSHIPS WAS CONSIDERED CRITICAL, WHETHER THE U.S. FIRMS WAS PRIMARILY INTERESTED IN SALES TO JAPANESE AUTO MAKERS IN JAPAN, THE U.S., OR THIRD COUNTRIES. MEMBERS ALSO AGREED THAT THE HIGH LEVEL USG ATTENTION MUST BE MAINTAINED OVER THE LONG TERM (MEANING SEVERAL YEARS) TO INSURE THAT U.S. AUTO PARTS SUPPLIERS ARE GIVEN FAIR OPPORTUNITIES TO BECOME INTEGRATED I,
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Attachment G

THE WASHINGTON POST

# Auto Parts Firms Start Campaign

## *U.S. Companies Want More Orders From Japanese Car Makers*

By Stuart Auerbach
Washington Post Staff Writer

U.S. auto parts makers, complaining about being shut out of new assembly lines for Japanese cars in this country, mounted a campaign in Tokyo last week to get Japanese car makers to buy more of their products.

Their major goal is to win supply parts orders for the growing number of Japanese cars being assembled in the United States, estimated to reach between 1 million and 1.5 million by 1990.

The Japanese firms that are the traditional suppliers have the domestic market sewed up because of their long-term relationships with Japanese automobile companies and are now following the manufacturers to this country.

"We don't believe we are being given an equal opportunity to compete with Japanese auto suppliers," Assistant Secretary of Commerce H. P. Goldfield said in an interview here yesterday.

Goldfield led the U.S. delegation of 18 executives from a dozen companies. He said the U.S. auto parts makers want a chance to compete for sales in the United States, Japan and in other countries where Japanese cars are sold.

The Commerce Department said U.S. auto parts account for no more than 1 percent of cars produced in Japan and 20 percent of cars made in Japanese assembly plants in the United States. U.S. officials would like auto parts to be included in a new round of intensive market-opening trade talks with Japan. But administration sources said the Japanese industry is fighting it.

The trade deficit with Japan in cars and auto parts was $24 billion last year, about half of the entire deficit with Japan.

Frustrated for years by a lack of progress in winning sales from Japanese car makers, industry officials feel 1986 might provide their big chance—especially if the Reagan administration keeps pressing the issue.

"U.S. government clout opens the door for aggressively sold U.S. world class products. Ultimately, we expect solid gains in all markets where Japanese cars are built or sold," said Julian Morris, president of the Automotive Parts and Accessories Association.

"This is going to be a good year for auto parts," said Richard Waterman, director of international marketing for Champion Spark Plugs. "I don't know how good, but I know from my meetings with Japanese during trade shows that they do have a great deal of pressure on them from their government and corporations" to buy American-made parts and accessories, he said.

He said it took "a great many years" for Champion to sell its products as original equipment on made-in-Japan cars. They succeeded, though, and U.S.-made plugs are being installed in engines produced in Japan. Some of these engines might be shipped to the United States for use in Japanese cars assembled here.

> *"We don't believe we are being given an equal opportunity to compete with Japanese auto suppliers."*
>
> — Assistant Commerce Secretary H. P. Goldfield

"The success we have now is primarily a result of sticking with it," Waterman said. "We are hopeful of increasing our share if the dollar makes our pricing more attractive."

The U.S. industry has thought government negotiations had secured it a niche in Japan before, only to see its hopes dashed. In 1980, the industry thought it had a commitment from Japan to buy $300 million worth of American parts in 1981, with yearly increases to follow.

But after the Reagan administration pressured Japan to limit its auto sales in the United States, the Japanese reneged on their pledge, industry representatives and U.S. trade officials said.

"The Japanese seemed more receptive this time," Goldfield said. "We are not going to let up our pressure." According to Goldfield, the Japanese didn't raise complaints about the quality of American-made parts, as they did in 1980. This time, Goldfield said he was prepared for the Japanese complaints; he had with him a long list of U.S. recall orders for quality and safety defects in Japanese-made cars.

Japan Times 4/13/86 p. 10

# Auto Parts Seen MOSS Agenda Item

WASHINGTON (Kyodo) — U.S. government sources disclosed Friday that auto parts are expected to be taken up as a new agenda item in U.S.-Japan subcabinet level market-oriented, sector-selective (MOSS) talks.

The sources said U.S. Secretary of State George Shultz will discuss the matter with Japanese Foreign Minister Shintaro Abe Sunday. Abe is visiting the United States accompanying Prime Minister Yasuhiro Nakasone who was scheduled to leave Tokyo for a four-day U.S. visit Saturday.

Auto parts were presented unofficially by the U.S. government as a possible new agenda item for MOSS talks together with tall containers after the Japanese government showed reluctance toward original U.S. proposals for MOSS talks on advanced technologies, chemical products, processed farm products and wine.

U.S. auto parts exporters are complaining about "trade barriers" in expanding their sales in the Japanese market.

If Shultz and Abe agree to take up auto parts, the bilateral MOSS talks, the second in a series, will start soon. The first talks, which ended in January, covered telecommunications, electronics, pharmaceutical goods and medical equipment and forest products.

The Japan-U.S. MOSS talks began in January last year. After successful results in January this year, President Reagan expressed hope of holding similar talks in other areas in the future.

## U.S., Japan Mull Auto Parts Trade

Japan and the United States held a one-day working level conference on automobile parts in Tokyo as part of their bilateral trade talks, officials said.

The meeting was the first of its kind in this field and both sides exchanged general views without going into specific details, officials of the Ministry of International Trade and Industry (MITI) said.

The U.S. side, led by Assistant Secretary of Commerce H.P. Goldfield, questioned Japan's business practices in the auto parts market and expressed their hope to increase exports to Japan of American auto parts, they said.

The Japanese side was headed by Hiroshi Sugiyama, director general of MITI's Machinery and Information Industries Bureau.

According to MITI, in fiscal 1985, Japan exported $2.4 billion worth of auto parts to the U.S. and imported $330 million from the U.S.

# Auto Parts Working Their Way Into Bilateral Trade Talks

By Maggie Jackson

A U.S. trade mission asked Japan last week to buy more U.S.-made auto parts, both in Japan and especially at the growing number of Japanese auto plants on American automakers' home turf.

H.P. Goldfield, an assistant secretary of the Commerce Department and head of the mission, said Japanese automakers make 300,000 cars in the United States now and will make 1 million by 1990, yet use few U.S. parts.

"That's of great concern to U.S. parts suppliers, who believe they are competitive in price and quality and superior in many cases in technology," Goldfield said in an interview.

Autos and auto parts accounted for half of the United States' $50 billion trade deficit with Japan last year, and has been an issue of growing concern to the United States, officials said.

Japanese news reports said that auto parts will be included in the next Market-Oriented Sector Selective trade talks between the two nations, but Goldfield said that conclusion was "premature."

He said "serious consideration has been given" to raising the issue in the yet-unscheduled MOSS talks, but "there has been no public decision as yet."

Maureen Smith, director of the Commerce Department's Office of Japan, said that "prospects (for sales of U.S. auto parts to Japan) are at this point a whole lot better than they have been in the past."

She said the stronger yen makes U.S. products more competitive, the move of Japanese automakers to the United States puts them in proximity to U.S. parts makers, U.S. parts makers themselves have become more competitive recently, and the entry of the South Koreans into the car market has forced Japanese parts makers to stay on their toes.

But while the stage has been set for more access, the Japanese market largely remains closed, she and Goldfield agreed. —AP

# Latin American Debtors Break Away From IMF Recipes

CARACAS (Reuter)—Latin America's debtor nations, hit by plunging living standards and liquidity problems, are gradually forging their own strategies for economic adjustment.

The bigger debtors in particular are rejecting traditional International Monetary Fund (IMF) recipes and adopting their own growth-oriented policies—with considerable success.

Brazil, the region's star performer, but with $103 billion in debt, has shown the way with a booming economy and a successful anti-inflation plan—all without an IMF accord since February last year.

NIKKAN JIDOSHA SHIMBUN (Daily Automobile Newspaper) (Page 1) (Full)

April 9, 1986

Sales Promotion for US Automobile Parts: Aiming at "US-Manufactured Japanese Cars"; Change in Consideration of Business Practices; US Department of Commerce with Auto-Parts Consultations with MITI

On the occasion of the first round of the Japan-US Automobile-Parts Consultations scheduled to be held with MITI on the 11th, the US Department of Commerce will make a request, placing the focus on expansion of local procurement of automobile parts for Japanese automobiles to be manufactured in the US. This was clarified by Assistant Secretary GOLDFIELD and Deputy Assistant Secretary WATKINS of the US Department of Commerce, who are now visiting Japan, in an interview with the Nikkan Jidosha Shimbun. It is possible to take it that it is because the Department of Commerce, on its part, came to judge that things will generally develop to the US side's advantage in the case of aiming at supplying automobile parts for US-manufactured Japanese automobiles, which will markedly increase in the future, rather than in the case of pressing Japan to increase its imports immediately on the strength of the nigh yen. From the viewpoint that Japanese automobile manufacturers' plants in the US are new business, the US Department of Commerce is taking the position that "this is a chance for American auto-parts-manufacturing enterprises to be recognized as new suppliers," without sticking to Japan's own business practices, and the Department of Commerce is going to make a proposal to MITI, saying that "In the case of the American market, it should be possible to introduce US-manufactured parts, without sticking to affiliations in Japan."

* * *

The Department of Commerce has so far pointed out that Japanese manufacturers' auto-parts affiliations are a factor that prevents Japan's imports of US-manufactured auto parts. In the interview this time, however, the US side took the position that "We will not ask MITI to change that (affiliation), and instead we want to ask about the way of doing things." Meanwhile, however, the US side took the position that the procuring of automobile parts at plants in the US "will make it possible also for American auto-parts-manufacturing enterprises to have business relations with Japan, without injuring Japan's traditional affiliations." Standing on this position, the Department of Commerce decided to make a request to the Japanese side, while aiming narrowly at "expanding the local procurement of auto parts in the US."

Behind the situation of the Department of Commerce's having shown a change in its posture toward Japan, it is because the Department of Commerce came to judge that now is a chance to secure access to Japanese manufacturers, and it is thinking that it will not become a plus for it to push its own way through. In addition, Japanese manufacturers are now moving in the direction of advancing into the US and stepping up their production, and thus the demand for auto parts for US-manufactured Japanese automobiles will tend to increase from now on. Moreover, there is also a judgment, to the following effect: "That will lead to (American auto-parts-manufacturing enterprises') displaying power in the Japanese market in the future."

* * *

Task of Local-Content Procurement in US Is "Quality"

[Commentary] As for the fact that the US Automobile-Parts Sales Mission, which is now visiting Japan, came to aim at "US-manufactured Japanese cars," it is possible to take it that such a fact indicates a result of (the US side's) having understood the Japanese automobile-industry structure and Japanese-style purchase policy to a certain extent.

In view of the American automobile-parts manufacturers side's way of doing things in the past, the US side used to push to the fore Japan's excess of its exports to the US over its imports from the US, and then the US side made at-random requests for purchasing (US-manufactured automobile parts) for both automobiles domestically produced in Japan and Japanese automobiles manufactured in the US, whereby the US side sought improvement of the (trade) imbalance. However, in order to regard domestically-manufactured automobiles as objects, the three major conditions in terms of "QCD" (i.e., quality, cost, and delivery) will all have to be satisfied. Among these "QCD" conditions, the US side views that cost and delivery are the most difficult points. Concerning cost, the conditions are now being gradually settled, owing to the high yen since last autumn. Meanwhile, however, the problem of delivery is still left behind. Then, it seems that the US side is thinking of aiming at US-manufactured Japanese automobiles, so that the Japanese side will not be able to weave its web of evasion.

Also, according to one concerned with the Mission, the US side, in regard to the Japanese automobile industry structure too, has a flexible way of thinking not seen in the past, to the effect that while standing on the point that each of the various (Japanese) finished-automobile manufacturers affiliates a group of subsidiary (auto-parts-manufacturing) enterprises and that they are taking the style of coexistence and coprosperity, the US side is going to avoid promoting the selling of automobile parts toward domestically-produced automobiles, which will lead to a decrease in the quantity of orders received by each affiliated group of subsidiary (auto-parts) enterprises.

Concerning the foregoing way of thinking, the executives of Toyota Motors, Nissan Motors, and Honda Motors, who are in charge of purchasing, say unanimously as follows: "Compared with adoption (of American auto parts) for domestically-manufactured automobiles, it is easier for them to consider adoption for Japanese automobiles to be manufactured in the United States. In that case, however, the problem is quality." Thus, those executives appreciated the US side's change of its policy. Meanwhile, however, they are pointing out the object-condition differences at the negotiating table.

Concerning the adoption of US-manufactured auto parts for Japanese automobiles to be produced in the US, the US side says that "We have cleared (away) all problems." In the meantime, the Japanese side is pointing out "quality." Then, how to put these points in gear, will probably become a focal point from now on. It seems that things will result in the Japanese side's putting strength into joint ventures and technological tie-ups between its affiliated subsidiary enterprises and American enterprises. However, it is also true that there is a way of thinking at the bottom to the following effect: "In that case, it is hard to say that that is the original way of adopting American-produced parts." (one leader of an enterprise participating in the Mission to Japan)

The US side will come to attend the first meeting of the "Japan-US Automobile Joint Committee," which is scheduled to be held with MITI on the 11th, after changing its hitherto policy line on a marked scale. All the more for this reason, the Japanese side will be pressed to make a choice that is still severer than ever.

[Report by Takumi KAMI of the 1st Editorial Section and by Hiroaki SAITO of the 2nd Editorial Section]

IM/6396c

ASAHI (Page 2) (Full) April 15, 1986

"It Is Not Place to Monitor"; Foreign Ministry on Structural Co-ordination Consultations

Concerning the fact that it was agreed at the Japan-US Summit Conference that the problem of structural co-ordination of the Japanese economy will be discussed at Japan-US High Administrative-Level Consultations, a Foreign Ministry leader stated on the evening of the 14th to the effect that "It is not that the US side will monitor implementation of the report by the Study Council for the Co-ordination Economic Structure for International Co-operation, or that it will negotiate things as to implementation."

(This report appeared in only the Asahi.) 6451t

NIHON KEIZAI (Page 2) (Full) April 15, 1986

Automobile Parts Are Inappropriate for MOSS; MITI Leader States

Concerning automobile parts, which the US Government is requesting as an object of a new sector of MOSS (Market Oriented Sector Selective), a MITI leader stated on the 14th, "First will probably be to condense problematical points at the automobile parts consultations, which MITI and the US Department of Commerce began. Is it not that taking that up at MOSS is inappropriate?"

(Similar report appeared in some other papers.) 6449t

NIHON KEIZAI (Page 3) (Full) April 15, 1986

To Support Participation in SDI; Keidanren Chairman Shows Personal View

Keidanren (Federation of Economic Organizations) Chairman Yoshihiro INAYAMA, at a press conference after the Business Summit held on the 14th, took the position of prefacing it as his personal view, and again emphasized his way of thinking, to the effect that "Japan also should participate in SDI (Strategic Defense Initiative)." As reasons for that, he gave two points: (1) The United States' defense spending of as much as 250 billion dollars is for the sake of Japan and other Western countries, and so Japan should naturally extend co-operation to the United States; and (2) SDI is not an offensive weapon, but is a weapon for defensive purposes. Also, in this connection, Sony Corporation Chairman Akio MORITA, who was also present at the press conference, pointed out as follows: "The United States is seeking Japan's co-operation on the research and development of basic technology for SDI, instead of weapons."

(TN: Similar reports appeared in all other papers.) 6446t

Mr. Thurmond

MAINICHI (Page 7) (Full)

April 14, 1986

Do Not Be Late to Ride "Automobiles"!; Parts Manufacturers' Advance into US Accelerated; 14 Companies in One and Half Years; High Yen ...; Other Companies Announce Their Names, One after Another; Forms Diversified, Too

The advance abroad by Japanese automobile parts manufacturers has been accelerated, due to the yen appreciation. Five finished-car manufacturing companies, including Toyota Motors, have all advanced into the US. Parts manufacturers have also begun to advance into the US, one after another, being timed to coincide with their start of full-scale local production in or after 1988. The sharp yen appreciation since last year has given a still greater impetus to such moves. The forms of advance are also changing, as can be seen in the point that cases based on the formula of establishing joint-venture enterprises with US automobile manufacturers are increasing, because the single-company advance is starting to cause new friction with US parts manufacturers

Another major reason behind the point that such automobiles as Toyota and Nissan cars have been able to obtain a high share rate in world markets, is that Japanese parts manufacturers have established, through efforts for rationalization, a set-up which enables the supply of highly-efficient, low-cost manufactured products. This is why US automobile manufacturers have also carried out procurement from Japanese parts manufacturers, in a more positive way.

The representative manufacturers, which are already carrying out local production in the US, include "Japan Electric Coating" and "Japan Radiator," which are both car-air-conditioner companies, "NOK" which is an oil-seal company, and "Stanley Electric" which is a manufacturer of lighting fixtures. According to a survey by the Japan Automobile Parts Industry Association, the number of companies, which have advanced into North American markets in the US and Canada, increased from the 49 in December, 1983 to 63 in May, 1985. It has increased by as many as 14 in only one and a half years. Moreover, such companies as "Toyota Gosei" of steering wheels and "Pioneer" and "Trio," which are both car-audio equipment companies, have also announced their names. Ten or more companies will probably advance henceforth, in the form of a single advance or of establishing a joint-venture enterprise.

The advance into the US by parts manufacturers became full-scale at the beginning of the 1970's. The aim was to supply parts for repair, aimed at Japanese automobiles, around at that time and to carry out supply to the US big three companies, including GM. After the beginning of the 1980's, advanced was made mainly by aligned manufacturers concerned at the respective requests from Honda Giken Industry, Nissan Motors, and other companies, which started local production. Needless to say, the reason for the rush of advances this time is that (parts manufacturers) have acted in concert with the five big finished-car manufacturing companies. However, there are also such new factors as that the US is guarded against a sudden flood of parts exports (by Japan), that the Japanese market is stagnant, and that the export environment has become severer, due to the high yen.

In particular, the US side entertains great dissatisfaction with "aligned transactions," in which Japanese manufacturers, which are engaging in local production, carry out procurement from parts enterprises which are placed under their control. This has developed even into a political problem, which, it is said, will also be taken up at the Japan-US MOSS (Market-Oriented Sector-Selective) Consultations. Therefore, (the Japanese side) has been driven into the situation of having to change greatly the hitherto-maintained method of making an advance.

Also, in regard to the method of advancing, therefore, the characteristic of the situation is that there is an increasing number of companies which have adopted the formula of establishing a joint-venture enterprise with US manufacturers, taking the place of the single-company advance (formula), maintained up until now. "Akebono Brake Industry" of brakes has reached agreement with GM on the establishment of a joint-venture company, "NIFCO" of industrial-use fasteners with ITW, and "Japan Spring" of springs with the Burns group. Toyota-affiliated Koito Works, Nissan-affiliated Ichimitsu Industry, and US Heller are engaging in the joint production of lighting fixtures. Cases of the forming of tie-ups, going beyond the scope of alignment, will probably increase, too.

The joint-venture formula is likely to become the main current henceforth, because it will enable expansion of the scale of production, and also because it will provide a clue for the delivery (of parts) to the Big Three companies and other finished-car manufacturers.

On the other hand, it is also a noteworthy point that GM has concluded positive tie-ups with Japanese excellent parts manufacturers concerned. It has decided on joint production in Japan with "Japan Spring" and "Japan Radiator," even besides "Akebono Brake." It has also established "Carsonic (TN: phonetic) Harrison" with "Japan Radiator," which new company will produce and sell variable-capacity compressors, from the autumn of 1987. It has thus formed its first production base in Japan. Cases of US manufacturers' advance into Japan are also tending to increase, in the midst of a situation whereby Japanese manufacturers have advanced into the US. Exchange between manufacturers across the border will steadily become more complicated.

ATTACHMENT H

Itinerary for Executive Auto Parts Trade Mission

FRIDAY, APRIL 4, 1986

WASHINGTON D.C.

8:30 am Mission participants arrive Secretary's Entrance (the portico 150 yards south of Constitution Avenue on 15th Street N.W.) U.S. Department of Commerce and are escorted to Secretary Baldrige's Conference Room (Room 5859)

EVENT: INTERAGENCY MISSION BRIEFING

8:45 -11:30 am Briefing presentation
by: U.S. Department of of Commerce
U.S. Department of State
United States Trade Representative

EVENT: MISSION LUNCHEON HOSTED BY BRUCE SMART, UNDER SECRETARY OF THE INTERNATIONAL TRADE ADMINISTRATION

12:00 - 2:00 pm

EVENT: BRIEFING ON "NUTS AND BOLTS" OF THE JAPANESE AUTO PARTS INDUSTRY.

2:15 - 4:15 pm Briefing Presentation
by: Patricia Haigh,
U.S. Department of State, former
Commercial Attache U.S. Embassy,
Tokyo.

Counselor Yokoyama
Commercial Counselor
Embassy of Japan

EVENT: WHITE HOUSE BRIEFING

4:30 - 5:30 PM Briefing Presenters to be determined

EVENT: RECEPTION IN HONOR OF THE DELEGATION

6:00 - 8:00 pm Location to be determined

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

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PARTICIPANT INSTRUCTIONS

PLEASE HAVE YOUR LUGGAGE AT THE FRONT DOOR OF THE
J.W. MARRIOTT BY 8:15 AM SATURDAY MORNING
THE COACH WILL LEAVE FOR NATIONAL AIRPORT AT 8:30 AM

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# MASTER SCHEDULE

# OF

# THE U.S. EXECUTIVE LEVEL AUTO PARTS TRADE MISSION

SATURDAY APRIL 5, 1986

Washington, D.C.

8:30 am Participants board coach and depart J.W. Marriott en route National Airport

9:00 am Participants arrive National Airport and proceed to Northwest Orient Airlines counter for check in

10:00 am Participants depart Washington D.C. en route Tokyo Narita International airport via Northwest flight 003

FLYING TIME: 15 HOURS 50 MINUTES.
TIME CHANGE: PLUS 13 HOURS
MEAL SERVICE: LUNCH, DINNER, SNACK.

SUNDAY APRIL 6, 1986

TOKYO JAPAN

3:15 pm Participants arrive Narita International Airport and are escorted through Immigration and Customs

Met By: Todd Thurwachter, United States and Foreign Commercial Service

Bruce J.Zanca, Mission Coordinator United States Department of Commerce

4:00 pm Participants board motorcade and depart Narita airport en route the Okura Hotel (Drive Time: 90 Minutes)

5:30 pm Participants arrive Okura Hotel for room check in

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Participant Instructions

Upon arrival participants will be escorted to the control room for room assignments and key distribution. Your bags will be delivered to your room.

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NOTE: An informal traditional Japanese dinner will be hosted by the Assistant Secretary Goldfield the evening of arrival. Time and location will be announced.

MONDAY APRIL 7,1986

7:15 am Participants proceed to _____ Room in the Okura Hotel for breakfast hosted by American Chamber of Commerce Japan

EVENT: BREAKFAST BRIEFING WITH THE AMERICAN CHAMBER OF COMMERCE
ATTENDEES:35

7:30 AM Participant arrive _____ Room for breakfast

7:35 am Opening remarks, Breakfast is served

8:00 am Briefing on doing business in Japan and the Japanese auto industry by members of the American Chamber of Commerce of Japan

8:30 am Briefing concludes Participants board motorcade and depart hotel en route Embassy of The United States

8:45 am Participants arrive Embassy and proceed to 9th floor conference room

EVENT: COUNTRY TEAM BRIEFING BY AMBASSADOR MICHAEL J. MANSFIELD

9:00 am Country Team Briefing begins

10:30am Briefing concludes

10:45am Participants board coach and depart Embassy for Ministry of International Trade and Industry

EVENT: MEETINGS AT MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

11:00am Participants arrive Ministry of International Trade and Industry (MITI) for meetings

12:00 n Meetings conclude Participants board coach and depart MITI for New Sanno Hotel

EVENT: LUNCHEON WITH MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AND THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

ATTENDEES: 35

12:15pm Participants arrive New Sanno Hotel for Lunch

1:40 pm Participants conclude lunch, board coach and depart New Sanno Hotel en route the Japan Automobile Manufacturers Association

EVENT: MEETINGS WITH THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

2:00 pm Participants arrive Japan Automobile Manufacturers Association (JAMA) for Meetings

4:00 pm Participants conclude meetings, board coach and depart JAMA for Okura Hotel

4:15 pm Participants arrive Okura Hotel
(FREE TIME 2 HOURS THIRTY MINUTES)

6:45 pm Participants board coach and depart hotel en route Desaix Andersen Residence

EVENT: RECEPTION IN HONOR OF THE MEMBERS OF THE U.S. EXECUTIVE LEVEL AUTO PARTS TRADE MISSION, HOSTED BY DESAIX ANDERSEN, CHARGE D' AFFAIRS, U.S. EMBASSY

ATTENDEES: 100

7:00 pm Participants arrive Andersen residence for reception

9:00 pm Reception concludes, Participant board coach and depart residence en route Okura Hotel

9:15 pm Participants arrive Okura Hotel

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

TUESDAY APRIL 8,1986

NOTE: Assistant Secretary Goldfield will assume a separate schedule for the day (See Attachment "B" for detailed Schedule )

EVENT: BUSINESS DISCUSSIONS WITH JAPANESE ORIGINAL EQUIPMENT MANUFACTURERS

9:00 am Participants arrive conference rooms to begin business discussions

(SEE ATTACHMENT "A" FOR INDIVIDUAL APPOINTMENT SCHEDULES)

5:00 pm Business discussions conclude

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

WEDNESDAY APRIL 9, 1986

NOTE: Assistant Secretary Goldfield will assume a separate schedule for the day. Delegation members who are not participating in the business discussions are free to accompany him to Nagoya to tour Toyota facilities (See Attachment "B" for detailed Schedule.)

EVENT: BUSINESS DISCUSSIONS WITH JAPANESE ORIGINAL EQUIPMENT MANUFACTURERS

9:00 am Participants arrive conference rooms to begin business discussions

(SEE ATTACHMENT "A" FOR INDIVIDUAL APPOINTMENT SCHEDULES)

5:00 pm Business discussions conclude

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

THURSDAY APRIL 10, 1986

NOTE: Assistant Secretary Goldfield will assume a separate schedule for the day. Delegation members who are not participating in the business discussions are free to accompany him to Yokohama Nissan facilities (See Attachment "B" for detailed schedule.)

EVENT: BUSINESS DISCUSSIONS WITH JAPANESE ORIGINAL EQUIPMENT MANUFACTURERS

9:00 am Participants arrive conference room begin business discussions

SEE ATTACHMENT "A" FOR INDIVIDUAL APPOINTMENT SCHEDULE

5:00 pm Business discussions conclude

THREE HOURS FREE TIME

EVENT: FAREWELL RECEPTION HOSTED BY THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

ATTENDEES: 100

8:00 pm Participants arrive _____ room for reception

10:00pm Reception concludes

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

FRIDAY APRIL 11,1986

EVENT: MISSION DEBRIEFING BREAKFAST

8:00 am Participants arrive _____ for mission debriefing breakfast

9:30 am Breakfast debriefing concludes

MISSION OFFICIALLY OVER

NOTE: Assistant Secretary Goldfield will host an informal wrap-up dinner Friday evening for the participants who are remaining in Tokyo. Time and location will be announced.

ATTACHMENT "B"

SCHEDULE
OF
ASSISTANT SECRETARY GOLDFIELD
FOR

THE EXECUTIVE LEVEL
AUTO PARTS TRADE MISSION
TO
JAPAN, APRIL 4-11, 1986

SATURDAY APRIL 5, 1986

Washington D.C.

8:30 am Assistant Secretary Goldfield departs residence en route Washington National Airport

8:30 am Participants board coach and depart J.W. Marriott en route National Airport

9:00 am Assistant Secretary Goldfield arrives National Airport and joins delegation

9:00 am Participants arrive National Airport and proceed to Northwest Orient Airlines counter for check-in

10:00 am Assistant Secretary Goldfield departs Washington D.C. en route Tokyo Narita International Airport via Northwest Orient Flight 003

FLYING TIME: 15 HOURS 50 MINUTES.
TIME CHANGE: PLUS 13 HOURS
MEAL SERVICE: LUNCH, DINNER, SNACK.

SUNDAY APRIL 6, 1986

TOKYO JAPAN

3:15 pm Assistant Secretary Goldfield arrives Narita International Airport and is escorted through Immigration and Customs

Met By: Todd Thurwachter, United States and Foreign Commercial Service

Bruce J.Zanca, Mission Coordinator United States Department of Commerce

4:00 pm Assistant Secretary Goldfield boards motorcade and departs Narita Airport en route the Okura Hotel
(Drive Time: 90 Minutes)

5:30 pm Assistant Secretary Goldfield arrives Okura Hotel and is escorted to Control Room for room check-in

NOTE: Assistant Secretary Goldfield will host an informal traditional Japanese dinner onthe evening of arrival. Time and location will be announced.

MONDAY APRIL 7,1986

7:15 am Assistant Secretary Goldfield proceeds to _____ Room in the Okura Hotel for breakfast hosted by American Chamber of Commerce Japan

EVENT: BREAKFAST BRIEFING WITH THE AMERICAN CHAMBER OF COMMERCE

ATTENDEES: 35

7:30 AM Assistant Secretary Goldfield arrives _____ Room for breakfast

7:35 am Opening remarks, Breakfast is served

8:00 am Briefing on doing business in Japan and the Japanese auto industry by members of the American Chamber of Commerce of Japan

8:30 am Briefing concludes Assistant Secretary Goldfield boards motorcade and departs hotel en route Embassy of The United States

8:45 am Assistant Secretary Goldfield arrives Embassy and proceeds to 9th floor conference room

EVENT: COUNTRY TEAM BRIEFING BY AMBASSADOR MICHAEL J. MANSFIELD

9:00 am Country Team Briefing begins

10:30am Briefing concludes

10:45am Assistant Secretary Goldfield boards coach and departs Embassy for Ministry of International Trade and Industry

EVENT: MEETINGS AT MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY

11:00am Assistant Secretary Goldfield arrives Ministry of International Trade and Industry (MITI) for meetings

12:00 n Meetings conclude Assistant Secretary Goldfield boards coach and departs MITI for New Sanno Hotel

EVENT: LUNCHEON WITH MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY AND THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

ATTENDEES: 35

12:15pm Assistant Secretary Goldfield arrives New Sanno Hotel for Lunch

1:40 pm Assistant Secretary Goldfield concludes lunch, boards coach and departs New Sanno Hotel en route the Japan Automobile Manufacturers Association.

EVENT: MEETINGS WITH THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

2:00 pm Assistant Secretary Goldfield arrives Japan Automobile Manufacturers Association (JAMA) for meetings

4:00 pm Assistant Secretary Goldfield concludes meetings, boards coach and departs JAMA for Okura Hotel

4:15 pm Assistant Secretary Goldfield arrives Okura Hotel for administrative time

ADMINISTRATIVE TIME 2 HOURS 30 MINUTES

6:45 pm Assistant Secretary Goldfield departs Hotel en route Desaix Andersen Residence

EVENT: RECEPTION IN HONOR OF THE MEMBERS OF THE U.S. EXECUTIVE LEVEL AUTO PARTS TRADE MISSION, HOSTED BY DESAIX ANDERSEN, CHARGE D' AFFAIRS, U.S. EMBASSY

ATTENDEES: 100

7:00 pm Assistant Secretary Goldfield arrives Andersen residence for reception

9:00 pm Reception concludes Assistant Secretary Goldfield boards coach and departs residence en route Okura Hotel

9:15 pm Assistant Secretary Goldfield arrives Okura Hotel

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

TUESDAY APRIL 8, 1986

EVENT: BUSINESS DISCUSSIONS WITH JAPANESE ORIGINAL EQUIPMENT MANUFACTURERS

9:00 am Assistant Secretary Goldfield arrives conference area and participates in business discussions

SEE ATTACHMENT "A" FOR INDIVIDUAL PRIVATE SECTOR APPOINTMENT SCHEDULES

10:45 am Assistant Secretary Goldfield departs Okura hotel en route the Ministry of Foreign Affairs

EVENT: MEETINGS AT THE MINISTRY OF FOREIGN AFFAIRS

11:00 am Assistant Secretary Goldfield arrives Ministry of Foreign Affairs for meetings

12:00 n Assistant Secretary Goldfield concludes meeting and boards motorcade for _____

12:15 pm Assistant Secretary Goldfield arrives_____ for lunch

1:15 pm Assistant Secretary Goldfield concludes lunch,boards motorcade and departs en route the Ministry of Transport

EVENT: MEETINGS AT THE MINISTRY OF TRANSPORT

1:30 pm Assistant Secretary Goldfield arrives Ministry of Transport for meetings

2:45 pm Assistant Secretary Goldfield departs Ministry of Transport for Keidanren

EVENT: MEETINGS AT KEIDANREN

3:00 pm Assistant Secretary Goldfield arrives Keidanren for meetings

3:45 pm Assistant Secretary Goldfield concludes meetings and departs Keidanren for Japan Automotive Parts Industry Association

EVENT: MEETINGS WITH THE JAPAN AUTOMOTIVE PARTS INDUSTRY ASSOCIATION

4:00 pm Assistant Secretary Goldfield arrives the Japan Automotive Parts Industry Association for Meetings

4:45pm Assistant Secretary Goldfield concludes meeting and departs the Japan Automotive Parts Industry Association for the Okura Hotel

5:15 pm Assistant Secretary Goldfield arrives Okura Hotel

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

WEDNESDAY APRIL 9,1986

7:15 am Assistant Secretary Goldfield departs hotel en route train station

NOTE: MISSION PARTICIPANTS WHO DO NOT ACCOMPANY ASSISTANT SECRETARY GOLDFIELD TO NAGOYA WILL REMAIN IN TOKYO FOR BUSINESS DISCUSSIONS AT THE OKURA

7:45 am Assistant Secretary Goldfield arrives train station and boards Bullet Train

8:00 am Assistant Secretary Goldfield departs Tokyo for Nagoya

TRAVEL TIME: 2 HOURS
MEAL SERVICE: BREAKFAST

10:00 am Assistant Secretary Goldfield arrives Nagoya Station

10:15 am Assistant Secretary Goldfield boards mini-coach and departs station en route Toyota Corporate Offices

EVENT: BRIEFINGS AND LUNCH HOSTED BY TOYOTA MANAGEMENT

11:30 am Assistant Secretary Goldfield arrives Toyota Corporate Offices for briefings

12:00 am Briefings conclude Assistant Secretary Goldfield is escorted to dinning room for lunch

1:30 pm Lunch concludes Assistant Secretary boards mini-coach and departs for Toyota manufacturing facilities

EVENT: TOUR OF TOYOTA MANUFACTURING FACILITIES

| | |
|---|---|
| 2:00 pm | Assistant Secretary Goldfield arrives manufacturing facility and is escorted on tour |
| 4:00 pm | Assistant Secretary Goldfield concludes tour and departs manufacturing facilities en route train station |
| 5:00 pm | Assistant Secretary Goldfield arrives train station and departs Nagoya en route Tokyo |
| 7:00 pm | Assistant Secretary Goldfield arrives Tokyo and proceeds to Okura Hotel |
| 7:15 pm | Assistant Secretary Goldfield arrives Okura Hotel |

NO SCHEDULED EVENTS FOR THE REMAINDER OF THE EVENING

THURSDAY APRIL 10,1986

10:00 AM Assistant Secretary Goldfield departs Okura Hotel en route Nissan Oppama Plant in Yokohama

(DRIVE TIME: 2 HOURS)

EVENT: BRIEFING AND LUNCH HOSTED BY NISSAN MANAGEMENT

12:00 n Assistant Secretary Goldfield arrives Nissan plant for briefing

12:30 pm Briefing concludes Assistant Secretary Goldfield is escorted to dinning room for lunch

1:45 pm Luncheon concludes Assistant Secretary Goldfield is escorted to plant facilities for tour

EVENT: TOUR OF NISSAN OPPAMA PLANT FACILITIES

2:00 pm Assistant Secretary Goldfield proceeds on tour of facilities

4:00 pm Assistant Secretary Goldfield concludes tour and departs en route Okura Hotel, Tokyo

6:00 pm Assistant Secretary Goldfield arrives the Okura Hotel for administrative time

ADMINISTRATIVE TIME 60 MINUTES

EVENT: FAREWELL RECEPTION HOSTED BY THE JAPAN AUTOMOBILE MANUFACTURERS ASSOCIATION

ATTENDEES: 100

8:00 pm Assistant Secretary Goldfield arrives _____ room for reception

10:00pm Reception concludes

NO SCHEDULED EVENTS THE REMAINDER OF THE EVENING

ATTACHMENT "B" PAGE TWELVE

FRIDAY APRIL 11,1986

EVENT: MISSION DEBRIEFING BREAKFAST

8:00 am Assistant Secretary Goldfield arrives _____ for mission debriefing breakfast

9:30 Breakfast debriefing concludes

MISSION OFFICIALLY OVER

NOTE: Assistant Secretary Goldfield will host an informal wrap-up dinner Friday evening for the participants who are remaining in Tokyo (Time and location will be announced)

Attachment I

## Automotive Parts Trade Initiative

### Trade Facilitation

Establish a procedure by which the progress of U.S. automotive parts manufacturers' sales proposals to Japanese motor vehicle and/or automotive parts producers will be monitored by a joint U.S./Japanese Government committee comprised of representatives from the U.S. Department of Commerce (DOC) and the Japanese Ministry of International Trade and Industry (MITI).

U.S. auto parts manufacturers will make business proposals to potential Japanese purchasers. Upon receipt of sales proposals from U.S. parts manufacturers, the Japanese companies will communicate directly with the U.S. companies to obtain all information necessary for a thorough evaluation of the sales proposals. When negotiations are complete, the Japanese companies will communicate to the U.S. parts firms, their acceptance of the business proposals and willingness to conclude formal supply contracts or their lack of interest in the proposals. In the latter case, U.S. firms will notify the Office of Automotive Affairs and Consumer Goods (AACG) of the breakdown in negotiations, explaining the reasons for failure. AACG then will classify the failed attempt into one or more generic categories. At its next regular meeting, the joint DOC/MITI committee will examine the reasons for rejections to determine if issues are involved that might be addressed by government policies and/or programs.

### Trade Policy

1. Identify all Japanese Government barriers, tariff and non-tariff, that impede access of U.S. automotive parts exports to Japan, including the Japanese certification and inspection procedures. This will be a continuing and evolving process.

2. Pursue, in the inter-agency trade policy process, the inclusion of any barriers identified above in bilateral and/or multilateral negotiations to seek their removal or liberalization.

3. Examine the relationship between Japanese motor vehicle manufacturers and their U.S. dealers to address whether franchising agreements or other agreements include provisions tying the supply of new vehicles to the sale of "genuine" replacement parts. U.S. parts companies, Japanese vehicle manufacturers and other interested parties will be asked for information on this matter. If information is developed that indicates that tying arrangements do exist, the Office of Automotive Industry Affairs (OAIA) will determine what relief

might be available to domestic parts manufacturers and, if appropiate, will assist the industry in seeking such relief.

Export Promotion

1. Sponsor at least one major trade promotion event in Japan every year through 1989 that features and promotes U.S. automotive parts. This will include U.S. pavilions in the biennial Tokyo Motor Show, exclusive U.S. exhibitions, periodic trade missions to Japan, and Japanese buying missions to the United States.

2. Develop a "New Products Promotional Program" designed to encourage U.S. firms to exhibit recently developed products at Japanese trade shows. One or more booths will be made available at the 1987 Tokyo Motor Show for a catalog exhibition, primarily featuring new products. Personnel for the booths will be provided by independent experts or by industry association representatives who are technically competent in their knowledge of the featured products.

Information Dissemination

1. Establish a systematic and continuing means to distribute information to U.S. auto parts companies on doing business in Japan. Information will be distributed which (a) identifies U.S. auto parts which are competitive in Japan, (b) describes the relationships between Japanese parts suppliers and vehicle manufacturers, and (c) describes the distribution channels in Japan and how to do business effectively in this environment. The information will be obtained from experienced U.S. auto parts companies and from governmental, academic and other non-industry sources. Studies may be conducted to supplement this information, if necessary.

2. Conduct a series of seminars for U.S. parts firms. These seminars will address problems encountered in selling to Japan, provide information on the Japanese market, answer questions, and follow-up on specific problems indentified by participants. Video tapes demonstrating how to do business in Japan will supplement the seminars and also will be available to interested firms and associations.

3. Prepare a detailed guide to Japanese Government motor vehicle certification and inspection procedures pertaining to auto parts, describing what U.S. producers need to do to obtain certification of parts for use on Japanese vehicles in Japan. This will be distributed to U.S. industry.

4. Encourage other U.S. Government agencies to conduct research and development activities which would assist U.S. automotive parts companies in improving their international competitiveness. Limited partnerships among domestic firms for the purpose of research and development also will be encouraged. The Office of Automotive Industry Affairs will act as liaison between the automotive parts industry and those firms and agencies providing research and development assistance.

Department of Commerce
International Trade Administration
Automotive Affairs and Consumer Goods
Office of Automotive Affairs
Automotive Parts and Suppliers Division
November 25, 1985

Attachment J

MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY
JAPANESE GOVERNMENT

November 30, 1985

The Honorable Bruce S. Smart, Jr.
Under Secretary of Commerce for
International Trade
U.S. Department of Commerce
14 St. N.W. Washington, D.C. 20230
U.S.A.

Dear Mr. Smart:

Thank you for your letter of October 28.

The motor show was held in Tokyo from October 31 through November 11. About 1.3 million visitors came to see the show, including many from overseas. Visitor response was extremely enthusiastic.

Many American automakers participated, thanks in large part to your department's support. It was also most valuable for Mr. Goldfield, Assistant Secretary for Trade Development and Mr. Watkins, Deputy Assistant Secretary for Automobile Industry Affairs, to come to Japan and exchange views with top executives of Japanese auto manufacturers and officials of MITI.

I would now like to offer my views on the two proposals you made in your letter in regard to a follow-up to the recent visit of the automobile parts buying mission to Chicago.

1. I basically welcome the idea of having an official U.S. selling mission visit Japan from April 4 - 7, 1986.

As we will have to ask the Japanese auto industry for cooperation in facilitating the visit, I hope that the parties concerned will embark on thorough, working-level discussions as soon as you arrive at a concrete plan.

2. This point concerns your proposal that MITI and DOC establish a joint committee. While I have no objection to a follow-up per se, It would seem that the committee you propose would take over too many of the functions of individual business talks. I am not sure this is an area where government belongs.

We both understand that business transactions are intrinsically the province of the firms involved. Like you, we do not intervene in, or monitor, individual discussions in any way, regardless of the nationality of the participants.

I am concerned that the creation of a mechanism by which government could comment on individual business talks might produce the unwanted effect of causing automakers to hesitate to enter such talks.

Therefore I would like to propose forming the following sort of committee to serve as a follow-up mechanism.

1) The committee's functions:

(1) To make a comprehensive evaluation of the results of both sides' missions.

(2) To discuss typical problems encountered by both sides in purchasing automobile parts, if such discussion would be effective in promoting purchases.

2) In view of the nature of the issue, I think it is quite appropriate that the committee is of the expert (director) class.

I have not yet had a detailed explanation of the DOC Automotive Parts Trade Initiative which you enclosed with your letter, and therefore cannot give you a precise or comprehensive comment. I offer the following as my immediate reaction after having read the material over once.

First, it seems to me that something like the "Trade Facilitation" and "Trade Policy 3" intrudes upon the functions of individual business talks, as I mentioned in regard to the joint committee in "2" of this letter.

Second, while we, too, are willing to cooperate to the fullest extent possible in matters in which cooperation is feasible, some sections - that on Export Promotion, for example - contain items on which we would have to ask you for details, and then discuss with you, before we could cooperate.

After receiving your request for a parts buying mission to your country, I worked hard to get the mission on its way. In my view, the mission has achieved its original purpose of stimulating transactions in automobile parts between the United States and Japan. I understand that seious follow-up activities are being conducted by the participant automakers and other parties.

It is my wish, as yours, to put in further work in this field. I expect efforts like these to activate discussions between our countries' automobile parts sectors and facilitate the flow of our bilateral trade in general

With best regards,

Yours sincerely,

K. Wakasugi

Kazuo Wakasugi
Vice-Minister for
International Affairs

JAN 7 1986

Dear Mr. Vice Minister:

Thank you for your recent letter. We are optimistic that the April 7-11 auto parts selling mission to Japan will produce encouraging results. It is important to foster business contacts between U.S. automotive parts suppliers and Japanese purchasers.

We welcome your agreement to have a joint committee function as the follow-up mechanism for the buying and selling missions. The committee could also facilitate business negotiations between U.S. and Japanese firms. As noted in my October 28 letter, the joint committee will not participate in business discussions. Rather it will seek to facilitate those cases--and we hope that they are few--where U.S. firms, for whatever reason, are not given a fair chance to compete for Japanese contracts.

While we share your concern about excessive government intervention, we do believe that in certain problem areas we should take every opportunity to correct inequities. Attacking typical cases alone will not be sufficient to accomplish our mutual goal of facilitating bilateral trade in this sector. There will be instances where we will both see the need to deal with a specific case. It is important that the committee have the authority to act.

In line with your recommendation that the committee conduct its discussions at the "expert" level, I have named Robert Watkins, Deputy Assistant Secretary for Automotive Affairs and Consumer Goods, and Maureen Smith, Director of the Office of Japan, to co-chair the discussions. Once you name experts for the Japanese side, these officials can meet to begin their important work. As you probably are aware, H. P. Goldfield, Assistant Secretary for Trade Development, will monitor this issue for me.

We stand ready to implement this segment of our Automotive Parts Trade Initiative. Mr. Watkins and Ms. Smith, at my request, will meet with members of your staff in Washington to start the process and to explain other elements of the Initiative.

With your continued strong support, we can achieve significant results in the automotive parts sector. We are committed to this effort.

Sincerely,

Bruce Smart

Honorable Kazuo Wakasugi
Vice Minister for International Affairs
Ministry of International Trade & Industry
1-3-1 Kasumigaseki

Prepared by: SKeitz & MSmith/jpj/AACG/AIA/X0554/12-23-85
Retyped: 12-30-85/Wang/Purple DUCUCS/ID #1020

Senator WILSON. Thank you very much, Mr. Secretary.

Let me ask you to expand a little bit on your description of the auto parts trade initiative.

Mr. GOLDFIELD. There are four parts to it. The first part is the establishment of the United States Government-Japanese Government Committee, the Department of Commerce-MITI Committee, to oversee this initiative and to oversee whether or not impediments arise or have arisen that bar United States sales to the Japanese auto manufacturers, whether that be in Japan, third markets or here.

We held the first meeting. Another meeting will likely be held this summer. I have asked the 12 companies that accompanied us on the trade mission to report back to the Department of Commerce in June as to what progress they have seen in terms of their own direct sales efforts to the Japanese companies.

To the extent problems have arisen that are believed to merit our Government's attention, we will take up those specific examples in that committee.

I have mentioned that we have a trade promotion effort and the executive level trade mission to Japan was one aspect of that.

We participated in the Tokyo Motor Show and encouraged the U.S. companies to participate, and they did so successfully.

The Japanese have sent some buying missions to the United States as a result of the collaborative efforts of the United States auto parts companies associations and the Department of Commerce. Missions came last August and again this past February.

We are also engaging in a trade promotion and information dissemination process to get the word out to United States parts suppliers, Senator, that there is business to be done in Japan and the United States Government stands ready to open the doors if that's what's necessary.

Senator WILSON. How exactly is this Department of Commerce-MITI Committee different than MOSS?

Mr. GOLDFIELD. As you are aware, Senator, the Reagan administration has suggested to the Japanese that the next MOSS sector be in automotive parts. We have not yet heard back from the Japanese side. I am hopeful that they will agree to our proposal.

But in any event, what I stressed to the Japanese, whether MITI or the Japanese automotive manufacturers association or a member of the Japanese auto companies, was the fact that regardless of the forum, we've got an opportunity to make progress. Regardless of whether it's a MOSS or we continue this committee, we have an opportunity for progress and we should not wait to see clear indications that progress has been achieved. We should not wait for a decision on some other forum. We cannot wait. We don't have the time.

Senator WILSON. And how would you describe the response to the overtures that you have made? Specifically what issues were discussed at this first joint committee meeting?

Mr. GOLDFIELD. It was a first meeting. It was an opportunity for both sides to express their views. We expressed ours, I think with great clarity, as to the need to see that United States companies have the ability to compete fairly and freely with the Japanese auto parts suppliers.

We expressed the fact that there are many United States companies that can supply quality products at competitive prices and are flexible and reliable suppliers and there is not the need in each and every case for the Japanese automotive manufacturers to bring their traditional suppliers from Japan to set up assembly facilities here. That redundant capacity helps no one.

The Japanese side listened to our statements and we indicated to them that we were asking the United States companies who were engaged in our particular trade mission to report back to us on what problems they had and we would take them up with the committee again at our next meeting.

Again, it was an expression of views at the first meeting. What happens from here we can only tell by clear indications of progress from the Japanese side.

Senator WILSON. Is there a date scheduled for the next meeting.

Mr. GOLDFIELD. We have not set a date yet, but I have asked the Japanese to consider doing certain things in the interim. I suspect that we will have that meeting some time this summer. I don't know any more specifically than that. But I did ask the Japanese side at least to be able to supply us, Senator, with data as to how many United States parts are being purchased by the Japanese auto companies in their facilities in Japan, in their facilities in third markets, and most importantly, how much are these United States based facilities of the Japanese companies buying United States parts, and I think that the Japanese heard our request loud and clear.

Senator WILSON. What response did MITI make at this first meeting to your elaborations on the reasons why they should change the way they do business? As you knocked down these bromides and myths about the inability of American auto parts makers to compete, what response did they make?

Mr. GOLDFIELD. They listened.

Senator WILSON. They just listened?

Mr. GOLDFIELD. They listened.

Senator WILSON. Well, they listened and said nothing?

Mr. GOLDFIELD. I emphasized to the Japanese, since we had always heard from the Japanese side—from the automotive manufacturers in Japan—that they needed committed sellers, they needed United States companies that were committed to establishing long-term relationships, that in any sales transaction it goes both ways. You need not only committed sellers, but you need committed buyers, and our companies deserve the same treatment that the Japanese have given over the past three decades to their auto parts suppliers in terms of developing those relationships. We deserve equal treatment to develop those longer term relationships.

As I said, again, the Japanese are concerned on this issue. They know it's a big ticket item. I think progress is not going to be easy, but we are going to be very determined.

The Reagan administration, Congress and U.S. industry are going to have to be awfully determined if we are going to see some results in the near future.

Senator WILSON. Well, I think the point has hardly been lost that half of that $50 billion trade deficit with the Japanese alone arises from this imbalance. In response to this, you are saying that the

Japanese simply listened? Do they understand that you asked them to monitor sales so that they can provide you with data at the next meeting?

Mr. GOLDFIELD. We've got to see—the words used were "some clear indications of progress." Unless we can make sure that we are dealing with a set of numbers that both sides feel reasonably comfortable with it's going to be difficult to monitor that progress. So I said as a very first step, regardless of the forum that's decided in which we're going to discuss this issue, whether it be the United States Department of Commerce-MITI forum or MOSS forum, that we want to know what the facts are at least as the Japanese side sees them. We may not agree with those, but let's see first what their numbers are.

Senator WILSON. Did you specifically discuss with them Japanese Government barriers to the export of United States parts?

Mr. GOLDFIELD. We did. While the United States mission participants, the United States companies, were involved with one-on-one business discussions over the course of 3 days with the Japanese auto companies and purchasing agents, I held meetings with the Ministry of Foreign Affairs, with the Ministry of Transportation, with MITI, with the Japan Automobile Manufacturers Association, and with the Ministry of Transportation. I raised a couple of issues with respect to United States parts suppliers' ability to sell, particularly to the aftermarket in Japan.

Some question has been raised with respect to the biannual and every 3-year inspection procedures that are currently mandated under Japanese law. United States companies believe that at least as a practical matter they are not being given equal treatment when the Japanese inspectors look at a vehicle that's in for inspection and they don't see a traditional part. United States companies—and they have some evidence to prove this and it's been raised in the past—are disadvantaged because those cars do not get approved at that particular inspection. We have raised the issue in the past and we told the Ministry of Transportation and the Ministry of International Trade and Industry that we were going to get more evidence in this particular inspection process that is causing problems to United States parts suppliers to the aftermarket in Japan and we would bring that back to the United States Department of Commerce-MITI Committee at our next meeting.

We also raised the issue of customs barriers in terms of customs procedures and clearance procedures on the Japanese side, or customs or tariffs that may affect such things as the nontraditional parts and accessories, the components, the electronics, the plastic mold, or the like. We are going to look into the whole list of United States parts, products, and accessories that could be sold to Japan to make sure that there are no specific tariff or nontariff barriers that exist.

Senator WILSON. Are there records kept of these inspections?

Mr. GOLDFIELD. The Japanese side claims that there is no problem with respect to the inspections. Their claim, Senator, is that their only concern is that the car meet certain safety standards and requirements and that that's the only measure by which a car is either approved or not approved at inspection. We told the Japanese side that we might even conduct a few test cases where we

took a Japanese car and put in some United States parts knowing that that car was subject to an inspection to see at a variety of inspection points whether or not there was a practical problem, if not a real problem, with the way the inspectors treated a United States product that was part of a Japanese car in the Japanese system. We needed a test case.

Senator WILSON. My question was this: If I'm driving a car and let's say it's a Toyota but it has some American parts in it and the inspector inspects it, is there a record kept of that inspection?

Mr. GOLDFIELD. I don't know the answer to that question. I'll get back to you on it. My initial guess is that there are no complete records kept as to the particular parts that get inspected and approved that we have been given. If those records are kept, we could ask for them, and it's a good point. We are going to need to know that.

Senator WILSON. Yes, I think you are, because otherwise this is going to be anecdotal and they will be able to dispute the matter and we will be unable to disprove it.

What about the ability of United States companies to supply parts to Japanese plants in the United States? If you've got two makers, one Japanese and one American, and they are supplying an identical car—or if not identical, at least a part that can be employed—has there been any analysis of comparative costs and comparative quality, that explains why the Japan firms use Japanese parts?

Mr. GOLDFIELD. That's exactly the kind of data we're going to collect beginning with the results of this trade mission. We have asked the United States companies to come back—because they claim to have competitive products at competitive prices and are prepared to do what it takes to be able to sell to the Japanese auto companies, particularly here in the United States, we have asked them to come back and tell us by way of anecdotal or by way of systematic obstruction to their progress what they have found out. There seems to be—and I think most United States parts suppliers would agree—an impediment even here based upon the longstanding traditional relationships between the Japanese auto parts suppliers and the Japanese automotive companies.

Senator WILSON. What about point of entry for the vehicle itself? You mentioned that you were interested in looking at customs practices. I don't know if the practice is still in effect, but if I'm not mistaken, formerly United States automobiles arriving in Japan were subjected to an inspection that required virtual disassembly, which makes it difficult to compete at the outset.

Mr. GOLDFIELD. We are currently undertaking a thorough review of the current and sometimes newly enacted rules governing that. My own recollection is that we have made some progress on that score, but I will have to get back to you if I may in written form on the specific answer to that question.

Senator WILSON. Something else I would bring to your attention, since we seem to be facing a situation in which heavy-handed tactics, however, unpleasant, may be required. I am told that the French, in their typical gallant finesse, have resorted to the subtle tactic of a single port of entry for Japanese imports.

I think you should give some attention to that and see what the comparative experience has been in terms of French and Japanese trade.

If you don't know this, I would be interested in obtaining it from you. Another question: Has there been any difference in the experience of United States parts suppliers to the GM-Toyota joint venture than with respect to other Japanese automakers having assembly plants here in the United States?

Mr. GOLDFIELD. I have, which I can submit, a breakdown—at least to the extent we have been able to get the information from either the joint ventures or the solely established facilities here—of the United States companies that have been successful in terms of breaking into those joint ventures or in some cases the Japanese solely owned facilities here. I will supply that information to you.

I think it's revealing that even in the best case, you see around 40 percent of U.S. components comprising that vehicle when we're talking about parts and accessories.

Senator WILSON. Thank you very much, Mr. Secretary, and we appreciate your being here and the efforts being made by the Department of Commerce to try to bring some light to bear on the cause of this imbalance.

Mr. GOLDFIELD. Thank you very much, Senator. We appreciate this opportunity to appear.

Senator WILSON. Now let me invite to the witness table Mr. Procassini, Mr. Cole, and Mr. McMinn. Mr. Procassini has a pressing schedule and he needs to leave as early as he can, so in deference to his schedule we will permit him to speak first.

**STATEMENT OF ANDREW A. PROCASSINI, PRESIDENT, SEMICONDUCTOR INDUSTRY ASSOCIATION, ACCOMPANIED BY MICHAEL GADBAW, ESQ.**

Mr. PROCASSINI. Thank you, Senator. I would like your permission to have Mr. Michael Gadbaw, from our Washington attorney's office, to be with me.

My name is Andrew A. Procassini. I am president of the Semiconductor Industry Association which includes 50 U.S. based manufacturers of semiconductor products. These merchant member firms represent 90 to 95 percent of the U.S. merchant semiconductor industry.

I will depart slightly from my text, but I would like it included in the record.

I would like to add that although I'm president of this association, I have been in the industry for approximately 25 years and lived in Japan for 2 years, 1974 to 1976, being engaged in the marketing activity for over 10 years. Thus my experiences are not only as an association president but as a marketing executive of American-based firms in the past.

I would like to start by describing briefly the market for semiconductor devices in the world's automotive economy, and outline our experiences in attempting to sell semiconductors to Japanese auto companies. These are relatively modest amounts in relation to the overall cost of an automobile, but industry analysts are quick

to point out that inclusion of electronic components increasingly determines what product the consumer will buy.

Now chips in cars are a worldwide opportunity. In 1978, the average U.S. auto had about $10 worth of semiconductor content. By 1985, it was $70. By 1990, it will be $110 per car of semiconductor content.

The growth in this particular area has been based on what might be referred to as the three "E's" in the automotive industry—entertainment, emission, and efficiency.

Entertainment is primarily radio and tape players and has long been an area in which automotive companies have utilized semiconductor devices. Entertainment currently accounts for 15 percent of automobile semiconductor usage.

In the 1970's, governments here and elsewhere took on the problems of auto emissions and auto fuel efficiency. Traditional, mechanical controls were simply no longer up to the twin challenges of urban smog and OPEC. Advanced science in the form of chip technology was put to work to provide controls which make possible cleaner burning engines and to bring about dramatic improvements in fuel economy ratings. The success we have realized in both emissions control and efficiency has been impressive, and engine electronics now account for about 68 percent of the total chip content in U.S. automobiles.

More important than the current uses of semiconductors in automobiles is the tremendous potential for future chip sales. I think that some people have called the automobile industry one of the smokestack industries of America, but I don't think that concept applies to the automotive industry. Attached in figure 1 of my testimony is a listing of all the industries surveyed by Business Week ranked according to the percentage of sales devoted to R&D. As expected, the semiconductor industry ranks first.

What I would like to point out, however, is that the automobile industry is 25 percent higher than the industry average is ranking R&D as a percentage of sales, and when ranked on an absolute basis comes in second only to the computer industry. I think General Motors' recent acquisitions of Hughes Aircraft and Electronic Data Systems are a further indication of the high technology nature of tomorrow's automobile industry.

The greatest future growth of chip usage in automobiles is expected to be in body electronics, now 10 percent of the dollar content, and driver information, now 6.4 percent of the dollar content. Body electronics, including such safety features as nonskid brakes and engine diagnostics, are just beginning to be commercially significant. Four wheel steering may also become a reality as microcontrollers adjust the wheels depending on the speed of the car. Driver information features include service reminders and digital gauges, and will one day bring us trip navigation systems using data sent from orbiting space satellites.

The bottom line here is that the global market for automotive semiconductors is substantial and growing. This year it will reach $1.74 billion and the U.S. market alone should be $3 billion by 1995.

While Europe, Japan, and the United States produce about the same number of autos, the use of semiconductors is highest in

United States vehicles. This is due to our emission and fuel efficiency standards, as well as to the size and appointments of our products.

U.S. firms today hold about a 52-percent market share of this segment of the world semiconductor market. Japanese chip makers hold approximately 46 percent, and European companies are in the 3-percent range. Clearly, U.S. firms are competitive globally in the components which go into automobiles. The particular problem we face in Japan is best evidenced, however, by an examination of relative market shares by geographic area.

In the estimated $963 million United States market for automotive end-use semiconductors, American firms hold about 70 percent of the market, and Japanese companies hold in the neighborhood of 30 percent. In the market for automotive end-use semiconductors in the European Economic Community, American firms again dominate with a market share of around 70 percent, with the remainder divided between Japanese and European concerns. But with Japanese auto companies, which we estimate purchase $464 million of semiconductors each year, neither American nor European firms have any appreciable level of sales. That is, of the 12 million automobiles built annually by Japanese firms, virtually all microelectronics are supplied by Japanese-based suppliers.

In figure 2 attached to this testimony you can see that United States companies have virtually no access to the Japanese automotive chip market. Japanese companies are only 6 percentage points away from parity with United States companies in the global market share and this is particularly noteworthy in that the United States chip makers enjoy a 70-percent share of the United States markets for automotive end-use semiconductors. And in my calculations, in 1986, in the absence of a closed market, the United States would have had about $325 million worth of semiconductor sales in Japan instead of something less than $5 million.

The story of United States sales of semiconductors to the Japanese auto industry is but an example of the larger problem we face in terms of world trade.

The SIA currently has a section 301 complaint before the United States Government which focuses on overall market access to Japan for United States semiconductor companies.

The figure for United States semiconductor sales in Japan in all semiconductor products is only marginally better than the specific example of auto chip sales. While we outsell our Japanese counterparts in every other market of the world, we have been frozen at around 10 percent of the total Japanese semiconductor market since the early 1970's. In 1985, our share of the overall Japanese semiconductors market dropped to less than 9 percent.

To their credit, United States officials are pressing Japanese negotiators on this question of market access. It has been reported that the major Japanese semiconductor purchasers have suggested that they will increase their purchases of semiconductors manufactured by United States-based suppliers in an effort to ease the current tensions. Whether full access will be provided is very much in doubt and it is a matter that is being discussed within the administration. The key issue is that the large Japanese electronics firms only account for half of the total chip market in Japan. The SIA

has stated that any resolution to the section 301 case must result in United States-based companies obtaining market access in Japan which is commensurate with their demonstrated competitiveness in other world markets. Clearly, to reach this level of participation in the Japanese market, United States semiconductor firms must be allowed access to the Japanese automotive market as well as the large Japanese electronics firms.

The automotive industry is increasingly incorporating semiconductor devices in its products. Traditionally, the Japanese automotive companies have not provided United States companies the level of participation that United States companies have earned in other world markets. Any lasting and comprehensive solution to the current semiconductor trade problems must address the issue of United States access to the Japanese semiconductor automotive market. Thank you, Senator.

[The prepared statement of Mr. Procassini follows:]

PREPARED STATEMENT OF ANDREW A. PROCASSINI

## U.S. SEMICONDUCTOR SALES TO THE JAPANESE AUTOMOTIVE INDUSTRY

### INTRODUCTION

Good morning Mr. Chairman, Members of the Committee, Ladies and Gentlemen. My name is Andrew A. Procassini, and I am President of the Semiconductor Industry Association (SIA). The SIA membership includes over 50 U.S.-based manufacturers of semiconductor products. Merchant SIA member firms represent from 90 to 95% of the U.S.-based merchant semiconductor industry.

The semiconductor products made by our membership are the heart of the Information Age that is upon us. As one leading industry figure has remarked, computer chips are the "crude oil" of the 1980's. Integrated circuits make possible technological innovations from desktop personal computers and advanced satellite telecommunications systems. Semiconductors are improving the competitiveness of many traditional American industries as well, including home appliances and the subject of today's hearing, automobiles.

The story of the development of the semiconductor chip is an American tale through and through. Since its invention in 1959, virtually every design breakthrough and new process technology in this industry has come from American efforts. As Charles Sporck, President and Chief Executive Officer of National Semiconductor Corporation, testified before this Committee's special session last August in California, the worldwide semiconductor industry has reached approximately $25 billion in total sales and is expected to increase to $100 billion within a relatively few years. The

U.S.-based industry shipments continue to represent over half of this $25 billion, and today over 250,000 Americans are productively employed in the design, manufacturing and sale of semiconductors.

The story of the American semiconductor industry, then, is a success story in terms of advanced technology, economic growth and employment opportunity.

## ONE WAY TRADE ACROSS THE PACIFIC

But all is not well in Silicon Valley today. Nor for that matter is all well in Detroit, Pittsburgh, Cleveland or other industrial communities of this land.

The problem which has confronted us for now too many years is what might be termed "one way trade" across the Pacific. We see it in too many industries in too many forms to say it isn't so.

Free, two-way trade enriches us all. The ideal of "comparative advantage" is a good one, indeed. We sell to others what we make best, and buy from others that which they most efficiently produce.

To the growing frustration and discontent of the employees of American industry as well as its captains, comparative advantage and two-way trading are simply not a part of our relationship with the world's second largest free market economy -- Japan. This is true across a full spectrum of industries, and is perhaps most clearly seen in the automotive sector.

Please allow me to describe briefly the market for semiconductor devices in the world's automotive economy, and outline our experience in attempting to sell semiconductors to Japanese auto companies. These are relatively modest amounts in relation to the overall cost of an automobile, but industry analysts are quick to point out that electronic componentry increasingly determines what product the consumer will buy.

CHIPS IN CARS: THE WORLDWIDE OPPORTUNITY

In 1978, the average U.S. auto had around $10 worth of semiconductor content. By 1985, that figure had risen to $70, and by 1990 it is expected to exceed $110 per car.

The growth of this market opportunity in the past decade has been caused by what might be referred to as the "three E's -- entertainment, emission, and efficiency."

Entertainment -- that is primarily radios and tape players -- has long been an area in which automobile companies have utilized semiconductor devices. Entertainment currently accounts for 15% of automobile semiconductor usage.

In the 1970's, governments here and elsewhere took on the problems of auto emissions and auto fuel efficiency. Traditional, mechanical controls simply were no longer up to the twin challenges of urban smog and OPEC. Advanced science in the form of chip technology was put to work to provide controls which make possible cleaner burning engines

and to bring about dramatic improvements in fuel economy ratings. The success we've realized in both emissions control and efficiency has been impressive, and engine electronics now account for around 68% of total chip content in U.S. automobiles.

More important than the current uses of semiconductors in automobiles is the tremendous potential for future chip sales. Some have called automobiles part of "smokestack America," implying that U.S. automobile companies are simply no longer competitive. This concept is particularly inaccurate when applied to the automobile industry. Attached in Figure 1 is a listing of all the industries surveyed by Business Week, ranked according to the percentage of sales devoted to R&D. As expected, the semiconductor industry ranks first. What I would like to point out, however, is that the automobile industry is 25% higher than the industry average in the ranking of R&D as a percentage of sales and, when ranked on an absolute basis, comes in second only to the computer industry. General Motors' recent acquisitions of Hughes Aircraft and Electronic Data Systems are further evidence of the "high tech" nature of tomorrow's automobile industry.

The greatest future growth of chip usage in automobiles is expected to be in body electronics (now 10% of the dollar chip content) and driver information (now 6.4% of the dollar chip content). Body electronics, including such safety features as non-skid brakes and engine diagnostics, are just

beginning to be commercially significant. Four wheel steering may also become a reality as microcontrollers adjust the wheels depending on the speed of the car. Driver information features include service reminders and digital gauges, and will one day bring us trip navigation systems using data sent from orbiting space satellites.

The bottom line here is that the global market for automotive semiconductors is substantial and growing. This year it will reach $1.74B, and the U.S. market alone should be $3B by 1995.

## BREAKOUT OF MARKET SHARE

While Europe, Japan, and the U.S. produce about the same number of autos, the use of semiconductors is highest in U.S. vehicles. This is due to our emission and fuel efficiency standards, as well as to the size and appointments of our products.

U.S. firms today hold about a 52% market share of this segment of the world semiconductor market. Japanese chip makers hold approximately 46%, and European companies are in the 3% range. Clearly, U.S. firms are competitive globally in the components which go into automobiles. The particular problem we face in Japan is best evidenced, however, by an examination of relative market shares by geographic area.

In the estimated $963M, U.S. market for automotive end-use semiconductors, American firms hold about 70% of the market, and Japanese companies hold in the neighborhood of

30%. In the market for automotive end-use semiconductors in the European Economic Community, American firms again dominate with a market share of around 70%, with the remainder divided between Japanese and European concerns. But with Japanese auto companies, which we estimate purchase $464M of semiconductors each year, neither American nor European firms have any appreciable level of sales. That is, of the 12 million automobiles built annually by Japanese firms, virtually all microelectronics are supplied by Japanese-based suppliers.

As Figure 2 demonstrates, because U.S. companies have virtually no access to the Japanese automotive chip market, Japanese companies are only six percentage points away from parity with U.S. companies in global market share (51.7% to 45.6%). This is particularly noteworthy in that the U.S. chip makers enjoy a 70% share of both the U.S. and European markets for automotive end-use semiconductors.

## A FAMILIAR STORY

The story of U.S. sales of semiconductors to the Japanese auto industry is but an example of the larger problem we face in terms of world trade.

The SIA currently has a Section 301 complaint before the United States government which focuses on overall market access to Japan for U.S. semiconductor companies.

The figure for U.S. semiconductor sales in Japan in all semiconductor products is only marginally better than the

specific example of auto chip sales. While we outsell our Japanese counterparts in every other market of the world, we have been frozen at around 10% of the total Japanese semiconductor market since the early 1970's. In 1985, our share of the overall Japanese semiconductor market dropped to less than 9%.

To their credit, U.S. officials are pressing Japanese negotiators hard on this question of market access. It has been reported that the major Japanese semiconductor purchasers have suggested that they will increase their purchases of semiconductors manufactured by U.S.-based suppliers in an effort to ease the current tensions. Whether full access will be provided is very much in doubt and is a matter that is being discussed within the Administration. The key issue is that the large Japanese electronics firms only account for half of the total chip market in Japan. The SIA has stated that any resolution to the Section 301 case must result in U.S.-based companies obtaining market access in Japan which is commensurate with their demonstrated competitiveness in other world markets. Clearly, to reach this level of participation in the Japanese market, U.S. semiconductor firms must be allowed access to the Japanese automotive market as well as the large Japanese electronics firms.

The automotive industry is increasingly incorporating semiconductor devices in its products. Traditionally, the Japanese automotive companies have not provided U.S. compa-

nies the level of participation that U.S. companies have earned in other world markets. For that reason, any lasting and comprehensive solution to the current semiconductor trade problems must address the issue of U.S. access to the Japanese semiconductor automotive market.

Figure 1

BUSINESS WEEK R&D SCOREBOARD: 1984

| | 1984 Millions of Dollars | 5-Year Growth Rate % | Percent of Sales | Percent of Pretax Profits | Dollars per Employee |
|---|---|---|---|---|---|
| **Business Week Compilations** | | | | | |
| **Semiconductors** | **897.7** | **24.8** | **8.1** | **83.2** | **4594** |
| Info Proc (Soft.Ser) | 262.1 | N/A | 7.4 | 49.7 | 4993 |
| Info Proc (computr) | 6051.8 | 17.9 | 7.2 | 45.4 | 6162 |
| Drugs | 3453.5 | 18.1 | 6.7 | 39.7 | 5704 |
| Info Proc (periphl) | 563.9 | 27.6 | 6.0 | 66.2 | 4420 |
| Info Proc (Of. Eq) | 883.7 | 18.0 | 5.8 | 65.8 | 4505 |
| Instruments | 982.3 | 17.2 | 5.5 | 80.9 | 3563 |
| Leisure Industries | 1121.0 | 12.0 | 4.8 | 97.7 | 3940 |
| Aerospace | 2589.4 | 17.7 | 4.6 | 79.6 | 4196 |
| Electronics | 1905.4 | 19.7 | 4.3 | 64.7 | 2690 |
| Automotive | 4941.7 | 4.4 | 3.5 | 58.5 | 4002 |
| Machinery (Farm,con) | 714.4 | 5.1 | 3.4 | -215.7 | 3091 |
| Mach.(Tools,Ind,Min) | 411.8 | 11.9 | 3.0 | 128.6 | 2092 |
| Electrical | 1556.9 | 12.0 | 3.0 | 29.9 | 2187 |
| Chemicals | 3370.7 | 16.7 | 3.0 | 39.1 | 3867 |
| **All Indstry Composite** | **39.3*** | **14.4** | **2.8** | **33.3** | **3081** |
| Conglomerates | 1531.4 | 13.6 | 2.6 | 41.8 | 1871 |
| Oil Serv. & Supply | 772.9 | 22.2 | 2.6 | 51.4 | 2159 |
| Personal & Home Prod. | 836.5 | 13.1 | 2.6 | 24.7 | 3048 |
| Misc. Manufacturing | 1276.8 | 11.6 | 2.5 | 28.7 | 1768 |
| Tire & Rubber | 532.5 | 8.2 | 2.3 | 50.1 | 1809 |
| Automotive (Parts) | 180.6 | 9.8 | 1.7 | 37.0 | 1340 |
| Appliances | 127.4 | 11.8 | 1.4 | 21.5 | 1113 |
| Telecommunications | 1252.8 | 20.8 | 1.4 | 10.7 | 1610 |
| Bldg Materials | 176.8 | 10.7 | 1.3 | 25.0 | 1436 |
| Metals & Mining | 211.3 | 8.3 | 1.1 | -42.4 | 1475 |
| Paper | 295.0 | 17.0 | 1.0 | 15.3 | 1172 |
| Containers | 71.1 | -0.5 | 0.9 | 21.8 | 839 |
| Food & Beverage | 656.2 | 14.6 | 0.8 | 10.8 | 972 |
| Textiles, Apparel | 81.5 | 18.7 | 0.7 | 17.6 | 494 |
| Steel | 175.5 | 10.9 | 0.6 | -9.4 | 809 |
| Fuel | 2228.3 | 21.6 | 0.6 | 6.2 | 2869 |
| Tobacco | 19.0 | 1.2 | 0.4 | 2.2 | 242 |

Source: Business Week, March 22, 1985 pp 164-192.
R&D represents dollars spent on company sponsored research and development for the year, as reported to the Securities and Exchange Commission on Form 10-K. Excludes any expenditures for R&D performed under contract to others, such as that for U.S. government agencies.

* Figures in billions.

Figure 2

Automotive Semiconductor Markets*

1986

($ in millions)

| | U.S. Market | Japanese Market | European Market | Global Market |
|---|---|---|---|---|
| U.S. Cos. | 675 (70%) | 5 ( 1%) | 219 (70%) | 899 (51.7%) |
| Japanese Cos. | 288 (30%) | 459 (99%) | 47 (15%) | 794 (45.6%) |
| European Cos. | 0 ( 0%) | 0 ( 0%) | 47 (15%) | 47 ( 2.7%) |
| | 963 | 464 | 313 | 1740 |

* Based on industry estimates.

Senator WILSON. Thank you, Mr. Procassini.

The figures tell the story almost as eloquently as your testimony. Whether there's a strong dollar or a weak dollar, whether there's a strong yen or a weak yen, in the past two decades we have had 10 percent of that Japanese market. An even more arresting figure is that they have had 99 percent of the Japanese automotive semiconductor market.

Which United States semiconductor products have the best chance of cracking the Japanese auto parts market?

Mr. PROCASSINI. If you take the automotive electronics market, the American-based companies started as early as the early 1960's with automotive rectifiers. Among those companies was Motorola, where I worked at that time. This was the first application of semiconductors in the automotive market. Since that time the semiconductor industry has served the automotive market with many subsequent types of devices, including voltage regulators, microcontrollers, microprocessors of all types that are going increasingly into U.S. automobiles.

During my stay in Japan in 1974 to 1976, I called on companies that supply electronics and electrical systems to the Japanese automotive companies. I was courteously received. I was allowed to show my wares. I was allowed to discuss my technology, but I received no purchase orders.

In subsequent years, the general managers of the operating divisions of the same companies called again and again and again and we still have no orders.

Now I think that from 1962 to 1986 is a terribly long temporary period of protection of the Japanese automotive industry. I don't feel that any claims of lack of attention or lack of effort can possibly be brought.

Senator WILSON. Well, let me ask you the same question essentially that I asked Secretary Goldfield. What was their response? What did they say? We provide quality semiconductors. Japan constitutes a potential market for these products. Because we are cost competitive, how do the Japanese justify not buying our products?

Mr. PROCASSINI. There is very little that is said. As a matter of fact, in most meetings that I attended you are courteously listened to and very little is said. Of course, you are given a courteous, "Well, we will consider it. We will look at the parts. We will consider your prices." However, that's as far as it goes.

Senator WILSON. Is this true in repeated visits?

Mr. PROCASSINI. This has been true in repeated visits in my history and I think if there's anything coming from it in recent history I believe it has to be due to the fact that there is pressure being brought.

Senator WILSON. So you see the same potential buyer and you, as a supplier, go through this ritual presentation of your wares and receive a courteous response to the effect that they will certainly give serious consideration, and nothing ever happens?

Mr. PROCASSINI. I think the outcome is generally words, not actions.

Senator WILSON. Where have the 10 percent of United States semiconductors and products gone that do find that part of the Japanese market? It's obivously not in automotives.

Mr. PROCASSINI. No, but I would be happy to answer that. Usually, the semiconductors that have been purchased by Japanese companies, in my own personal experience and beyond, tends to be a product that they cannot or choose not to make for themselves and generally it was at the front edge of the technology such that if they were not ready to make them the American firms would sell those products until the Japanese could make them themselves and then you were put into the position of a nonsupplier or residual supplier. Consequently, the American semiconductor sales traditionally in Japan over the last 20 years have been at the front edge of technology or in areas in which the Japanese choose not to devote their capacity and this has been true in my experience.

Senator WILSON. Have you also made similar calls on Japanese companies operating here in the United States?

Mr. PROCASSINI. No; I have not made calls on Japanese companies in the United States.

Senator WILSON. Is there any differences between the buying practices of those Japanese companies based in the United States versus those that are home based?

Mr. PROCASSINI. My opinion is—and this is opinion only, not based on my experience—that relationship probably carries over because it has in other industries, that if there's an assembly plant in the United States, typically the reports indicate that the components also come from Japan.

Senator WILSON. You mentioned that 15 percent of the sales of semiconductors to automotive buyers is in the entertainment area. Do you know whether or not there is any difference in terms of sales to nonautomotive entertainment sources? I'm trying to find out whether there's a basic difference between the buying practices of the Japanese automotive industry and similar practices within other segments of their own economy.

Mr. PROCASSINI. I can only relate to the automotive entertainment area on that 15 percent.

Senator WILSON. Have you had any experience with Japanese governmental officials?

Mr. PROCASSINI. Yes, I have.

Senator WILSON. In other words, in addition to making calls on potential buyers, you have also had an opportunity to discuss a lack of success in marketing your wares with Japanese officials?

Mr. PROCASSINI. Yes.

Senator WILSON. What response do you get there?

Mr. PROCASSINI. I get the response that I've gotten for the last 10 years. The responses are typically, "We would like to change things but we must change them slowly." The other response is that, "You must try harder."

Senator WILSON. Try harder how?

Mr. PROCASSINI. Whatever way you can, if you invest in Japan, more factories in Japan, come to Japan, bring people to Japan, give us technology in Japan—anything that they indicate they want us to do for them in return for what they will do for us.

So the tendency tends to be you give us—their comment to us is more like, "You give us action and we'll give you words."

Senator WILSON. And tea and sympathy. All right. Thank you, Mr. Procassini, and I appreciate very much your being here. I appreciate your preparing this testimony.

Mr. PROCASSINI. Thank you very much, Senator.

Senator WILSON. Mr. McMinn, please proceed.

**STATEMENT OF ROBERT W. McMINN, SENIOR VICE PRSIDENT, PLANNING/DEVELOPMENT, AUTOMOTIVE PARTS & ACCESSORIES ASSOCIATION, INC., ACCOMPANIED BY LEE KADRICH, MANAGING DIRECTOR, GOVERNMENT AFFAIRS AND TRADE**

Mr. MCMINN. Thank you, Senator. I am Robert McMinn, senior vice president of planning/development for the Automotive Parts & Accessories Association. I want to thank you for this opportunity to meet with you. I am joined by Lee Kadrich, managing director, government affairs and trade, and he's the person who developed this testimony and is here to help answer the detailed questions.

Senator WILSON. Let me invite you to summarize your statement.

Mr. MCMINN. Good. I would be happy to.

Senator WILSON. As I indicated, we will place it in the record in its entirety, but in the interest of time and getting to the questions we would appreciate your summarizing.

Mr. MCMINN. Good. The hearing is timely. There is a $4 billion deficit in the automotive parts trade between Japan and the United States and the trend is against us. In the last 5 years it has increased threefold. We think the Japanese could reach 50 percent control of the content of all cars sold in America by 1989. That would be a combination of their own production in Japan plus what they produce here, plus the Japanese parts supplied to the United States big four who are using an increasing amount of foreign content in their own vehicles.

What we would like to look at is some of the trading practices that lie behind this deficit and perhaps a couple of suggestions as to what could help us to survive and perhaps even thrive in what we recognize as a global automotive industry.

We definitely need the political clout of tough market-opening talks to go along with our proposed economic incentive which is discussed in our attachments, and so the members of this subcommittee and your congressional colleagues are a very important part of any market-opening efforts.

First, who we are. We represent 1,700 members of the automotive industry who make and sell automotive parts and accessories. Nine hundred and fifty of those members are manufacturers. They supply both original equipment and to the aftermarket. Generally, the aftermarket is the more profitable segment but to get into that aftermarket you have to understand that in many cases you first must be a supplier to the original equipment manufacturer. That's where you get the design information and it's where you get the volume of production that helps to keep your aftermarket parts price competitive.

Once you're in business making parts for the original equipment makers, that's salable worldwide and that's a factor that will help the U.S. trade balance.

A number of parts don't require that supplier relationship—chemicals, accessories, and a number of generic items.

We are competitive worldwide, unlike the automobile producers in the United States who are virtual nonentity in terms of exporting. We have historically been about a 15-percent part of the world market as suppliers.

I am sorry that the APAA president, Mr. Julian Morris, could not be here with you today because we feel he is the designer and builder of the Cooperative Industry-Government Program that Mr. Goldfield discussed earlier.

We have been very active in that three-phased program that he explained to you and in fact it was our trade show here in the United States that hosted the Japanese buying mission last summer.

We are watching the creation of the trade committee described by Mr. Goldfield, because it's our understanding that it will work very closely on company-to-company specific problems. But, that's not all that must be done in the way of Government assistance to respond to the trade deficit.

Our approach is to work on both the Japanese home market for original equipment and the aftermarket in Japan, which is largely controlled by the original equipment manufacturers. Our efforts have received an added push from USTR Ambassador Yeutter and Ambassador Smith who have helped to put automotive parts first on the bilateral agenda.

We think we have a strategy that will work well. It's been alluded to earlier that there was a 1980 effort to improve the trade in parts. That was scuttled before the ink had even dried, by the VRA, the Voluntary Restraint Agreement. It seems to be the Japanese feeling that having restrained the sale of vehicles they did not need to make any effort to purchase additional amounts of United States parts and, in fact, they have not done so.

They were supposed to be approaching $300 million in purchases shortly after that 1980 agreement. The 1985 number is more like $191 million of United States parts exported to Japan. So they haven't come close to the number that was once agreed to.

We have not been idle in our market opening strategy. We have taken a group of U.S. manufacturers to the "Made in U.S. Fair" in Nagoya, last year. We have hosted the Japanese mission to the APAA's show. We participated in the Tokyo Motor Show, which was interesting in that there were only two foreign pavilions at the show—the United States pavilion attempting to sell parts, and the Canadian pavilion attempting to sell Ontario real estate which we will get into later.

We have pressed for auto parts to be added to the MOSS talks and we feel that the MOSS visibility will very much assist the companies that are making the effort and assist strongly in making major changes in this large deficit.

We apparently hit a nerve, because for the first time in the MOSS discussions the Japanese appear to be ready to reject a proposed sector—auto parts. Certainly that's the information that we have to this date, although they have not yet made a formal response.

We originally planned to ask you to follow the MOSS and TFC talks and apply the congressional pressure necessary to assure their success, but now we have to ask you to press that there be a MOSS talk on auto parts. We hope you will be able to give us some assistance.

There is a lot of urgency on behalf of our industry. Despite the record profits that the original equipment manufacturers in the United States have enjoyed over the last couple years, that has not been shared by the automotive supplier industry. In fact, the automotive supplier industry is twice as large as the vehicle assembly industry by any count, so what you're saying is that two-thirds of the automotive industry has only partially recovered from the recession.

Since U.S. export of vehicles is virtually nil, there's no pulling along to help us sell our parts overseas. We have to manufacture parts that can be used in the vehicles that are produced and used in the foreign markets.

In addition, the U.S. manufacturers have increasingly sourced their own assembly content from overseas. This has combined with other factors to cause a dramatic reduction in domestic demand for our parts. We must become global: We want to become global. We think we can be competitive but we need help in some cases.

Actually, with the shifting of our customer base from Detroit to Tokyo, the very survival of the industry hinges on gaining access to the Japanese original equipment and replacement parts markets and that includes access to the aftermarket for their cars wherever they are a major factor in a market.

Interestingly, Japan is the head of the list of trade problems that we have in the parts industry, but it's not the only one. There are other emerging auto powers such as Taiwan, Mexico, South Korea, and we want to watch those carefully to make sure that the Japanese style of one-way trade is not developing.

As a side note to that, the Koreans, who can choose to use technology from anywhere, have told us that they prefer the United States product technology and the Japanese process technology. We have a mission going to Korea this spring which will be attempting to work with them.

Our results here in the United States, as Secretary Goldfield has said, in selling to the transplanted Japanese assembly plants have been relatively paltry. Twenty to 25 percent are the kind of numbers we're looking at.

We are pleased for every firm that has won a contract, but little of what we have sold is the kind of product that we need to be making. They are not the model-specific engine parts, transmission parts, driveline parts, that make up the profitable aftermarket sale items. What they are buying from us are more or less generic products such as steel, glass, carpeting and windshield wipers. Even many of those are made in Japanese supplier plants that have relocated to North America, be it United States or Canada.

We don't have figures on the Honda and NUMMI—which is G.M.-Toyota—plants, but we feel they are in the 20 percent local content range, too.

Three policy areas we think require some congressional attention. Very briefly, they are the foreign trade zone [FTZ] subzones,

the United States-Canadian auto trade pact which has a big impact on what the Japanese are doing, and the incentives for foreign manufacturers to relocate in the United States or Canada.

Just one note from the testimony, the foreign trade subzones allow a manufacturer to bring in automotive components which would normally be subjected to a duty of 4 to 6 percent, assemble them into a car with no duty, and then have them dutied at the 2.6 percent that applies to the finished car. So there's a couple of percent, or anywhere up to a 4-percent savings that would be applied just in the case of Honda and Nissan to about $900 million a year worth of imports. So it becomes a pretty substantial incentive for them to bring their parts in. We are giving them a little discount on the tariff.

So we need to look at the FTZ approach, and the testimony details some of the things we think should be looked at.

Along with that, we should be looking at the Canada trade pact since they have given up trying to sell Canadian auto parts in Japan and have decided instead to sell real estate and invite the Japanese to Canada. That's exactly what they were doing at the Tokyo Motor Show.

The advantage to the Japanese there is that under the trade pact original equipment product crosses the border duty free. The advantage to Canada versus the U.S. is that they are putting considerably more government money into subsidies for the plants that will locate there. There is quite a contest between our States and Canadian Provinces to attract overseas plants. In general, the U.S. tell us that Canada's package is always at least twice as good economically as the U.S. are able to muster. So that's another one that we should be looking at.

Once they are there producing for their own original equipment use, then the volume is sufficient to make them very price competitive in the aftermarket, which in the case of the United States is a very large $100 billion-plus market.

We don't see any end to this interstate and interprovincial rivalry, but we do ask that Congress keep a close eye on the developing United States-Canadian free trade negotiations.

We would agree that the reasons for not buying American products are primarily the structural relationship between the Japanese vehicle makers and the family of banking, insurance, vehicle maker and supplier industries that are so economically linked with common equity.

Labor cost differentials are obviously dropping off. We have been in a very competitive situation in our own supplier industry. As I mentioned, we haven't come out of the recession. We have actually been providing cost reductions to the vehicle assemblers here.

But we cannot concede, like the Canadians have, that the institutional barriers can't be surmounted. I don't think we want to give up and say, "No more industry and we'll just sell real estate." So we are suggesting the items I have already mentioned for Congress to keep an eye on.

We are suggesting, in addition, a parts purchase incentive plan which would give the Japanese a definite incentive to purchase United States content for their vehicles. The plan is detailed in our testimony, but essentially we think it is something which could be

used to encourage them economically to break out of the rut of supplying themselves only from their own companies. It's similar to something that the Canadians have had going and we feel it could be as successful for us as it has been for them.

Briefly, we should also keep in mind that tax reform should not abolish investment tax credits at a time when our industry has to restructure itself completely to be competitive. A balanced budget which keeps our dollar in relative relationship to the yen as it is now would certainly be useful to every export industry. And, trade law reform should recognize and respond to foreign practices that block our exports or target domination of our markets.

So I think, in closing, it's essential that we act now to allow our industry to compete fairly in the world market lest we go the way of American camera manufacturers, shipbuilders, and home electronics manufacturers, all of whom are not what's called by Business Week "hollow" industries.

We need your help to get the job done and we think only the clout of the congressional muscle can truly make the market-opening talks and the TFC efforts successful. We are anxious to work with members of the committee and your colleagues and we appreciate the opportunity for this review.

[The prepared statement of Mr. McMinn, together with attachments, follows:]

PREPARED STATEMENT OF ROBERT W. MCMINN

Mr. Chairman and Members of the Subcommittee:

I am Robert McMinn, Senior Vice President of Planning and Development for the Automotive Parts and Accessories Association (APAA). Thank you for this opportunity to meet with you. In the interest of time, I will summarize my complete statement. I am joined by Lee Kadrich, Managing Director, Government Affairs and Trade, who developed the testimony and is here to answer your detailed questions.

We commend you for holding this hearing to review the status of U.S.-Japan automotive products trade. We have some disturbing news to report on the staggering $4 billion auto parts trade deficit that continues trending against us, with nearly a three-fold increase since 1981. The five-year bilateral trade trend line is attached as Appendix A. Japanese auto makers and parts suppliers are poised to emasculate our industry. They could control 50 percent of the content of all cars sold in America by 1989, through imports, transplanted production, joint venture "hybrids," and more Japanese parts under the hoods of remaining Big Four output.

We will probe behind those numbers to tell the story of Japanese trading practices that threaten our industry's survival. More importantly, we will review the current national policy for meeting this threat, and seek to enlist your backing for APAA's policy

prescription that we believe can help us survive, and actually thrive in the global automotive industry. APAA's strategy couples the political clout of tough market opening talks with our proposed economic incentive. I must stress the need for the members of this subcommittee and your Congressional colleagues, the legislative craftsmen of American trade policy, to apply the political muscle to get this job done.

APAA represents 1,700 members who make and sell automotive parts and accessories. While many of our 950 manufacturer members sell to both the Original Equipment Manufacturers (OEM) (car companies) and consumer markets, the lions share of industry profits are made in aftermarket sales. Sales to OEM's provide the volume production base and design information needed for aftermarket production. We have another 750 members engaged in selling, members of the distribution chain, manufacturers' representatives, export management companies, and retailers.

I would like to briefly discuss how our industry works. In America, cooperation between suppliers and OEM's is marked by several characteristics. OEM's provide early product design information to the supplier and order a base volume of production. Suppliers produce not only for the auto makers but also for aftermarket distribution in dealer networks and independent outlets, a factor that keeps costs low and consumer prices very competitive.

As a car ages the aftermarket assumes the service load from new car dealerships. Once new car warranties expire it is the independent aftermarket that provides nearly all of the service on these cars. The aftermarket also gives consumers a variety of choices in service facilities and sales outlets for do-it-yourselers.

Parts made for OEM's are saleable worldwide, a factor that helps the U.S. trade balance. Of course, a number of parts do not require an OEM/supplier relationship, e.g., chemicals and accessories. Americans already compete vigorously in the market for fast moving products, parts that do not require specialized tooling or development costs for producers that already make similar products for domestic application.

APAA's president, Mr. Julian Morris, regrets very much that he could not be here today. As the designer and builder of the dynamic industry/government marketing opening partnership--the Japan Inititiative--he is the founding partner from the industry side. It was only ten months ago that APAA proposed its three pronged plan to the Department of Commerce (DOC). Our leaders signed on and moved swiftly to close the deal with Japan's Ministry of International Trade and Industry (MITI). Japan's official buying mission to APAA's 1985 Show completed the plan's first phase, and Mr. Goldfield, DOC's Assistant Secretary for Trade Development, has very capably executed phase two, the reciprocal official selling mission. And, together with the talented DOC negotiator, Mr. Clyde Prestowitz, he has initiated the third and

ongoing stage--the creation of the Trade Facilitation Committee (TFC) to keep the heat on contract negotiations and to deal with any alleged unfair business or government trade practices. I have attached as Appendix B our survey findings which describe the scope of these barriers.

Our campaign takes a two-track assault, hitting Japan's $26 billion OE and replacement parts markets and the $5 billion parts markets for their cars built and sold in the U.S. With the added strengths of USTR Ambassadors Yeutter and Smith, who have put parts trade first on the bilateral agenda, APAA feels we have a potential winning strategy. And, we have observed that government clout is helping open some doors for our competitive, world class, state of the art products.

Government and industry agree that it is now or never to avert the Japanese takeover of America's parts industry. We must not allow Japan to scuttle our efforts as they did in early 1981. Both nations agreed to the severity of parts trade problems in 1980. In fact, our three pronged plan is a revival of that campaign to spur U.S. parts sales. That agreement died before the ink had scarcely dried, with Japan excusing itself from TFC monitoring of their 1980 parts buying mission on the grounds that their new car export restraints was all it would do. The U.S. let them off the hook. The result is that U.S. parts exports have never brushed close to Japan's 1981 target purchases level of $300 million--a goal that was far from significant even at that time.

Time is short: the $12 billion cars/parts deficit of 1981 has more than doubled. Faced with an auto parts policy void, APAA did not stand idle. In fact, Mr. Morris was leading industry's parts exhibt at the Made in U.S.A. Show in Nagoya, and inviting Japanese OEM's to APAA's Show, when he got word from the U.S. Embassy that APAA's lobbying efforts had landed parts trade issues back on the bilateral trade agenda. I have attached a chronology of the APAA campaign as Appendix C. The President and Commerce Secretary recognized APAA's commitment to making U.S. firms foremost world competitors by awarding us the prestigious "E" Award for Export Service Excellence. But, the best reward was the industry/DOC link-up of trade development skills and resources, best seen in the DOC sponsorship of American industry's pavillion at the 1985 Tokyo Motor Show.

APAA knew that an auto parts MOSS, dubbed for market oriented, sector specific, talks would put the campaign into high gear, demonstrate Administration commitment and keep visibility high. Our industry lobbied hard for the MOSS treatment. We credit the Administration for putting its money on auto parts MOSS as its sole request for a new round. Japan's veto, the first known of its kind, demands that the Administration, Congress and industry stand tough in demanding MOSS status. We have hit the nerve, and Japan recoiled at the thought of Americans making sales in the $26 billion home market. This time there can be no excuse, and certainly not the reported Japanese objection that MOSS would cut into their $1 billion plus OE shipments to American assembly plants. Can you imagine?

American firms barely can sell a lick of the $10 billion in OE that goes into building cars destined for our market, much less share in the remaining $13 billion OE market or the $3 billion aftermarket. Yet, Japan would thwart market access talks. Japanese OEM's and suppliers fear it might cut into their drive to have it all in the U.S., too. MOSS, it would appear, is in danger of becoming a victim of its own success, with the Japanese anxious to duck the high visibility and the concessions. I have attached as Appendix D a memorandum describing the high status involved which we used in lobbying for MOSS.

We originally planned to ask you to closely follow the MOSS and TFC talks and to apply pressure to assure their success in the long haul. But, we now must urge you to press Japan to come to the MOSS negotiating table in good faith. Should they refuse to deal with nontariff business and government barriers to U.S. parts exports, we feel there is little hope for a good faith effort in resolving specific grievances raised by U.S. firms in the TFC.

Our urgency is warranted, for our industry clearly is in a state of wrenching transition. The record profits of the U.S. OEM's belie the fact that TWO-THIRDS of the U.S. automotive industry--the suppliers--have only partially recovered from the auto making depression. With U.S. car export production only a shadow of its former self and with virtually no American car exports pulling U.S. made replacement parts behind them, demand for our products is down. U.S. OEM's have stepped up their outsourcing to contain costs on their remaining production. And, anxious to shed

unprofitable small car lines, they have added to the flood of Japanese imports bearing little if any U.S. content by hiring Japanese partners to make their small car lines. Our domestic aftermarket sales erode further as Japanese made cars gain more prominence in the U.S. car population. And, Japanese auto makers manipulate markets worldwide foisting their closed dealership and supply networks on other aftermarkets.

With more of our customer base shifting from Detroit to Tokyo, the very survival of our industry hinges on gaining access to Japanese OE and replacement parts markets. There are fewer of us than there were five years ago, and unless American firms can crack parts markets wherever Japan builds and sells cars, we will lose many more plants and 400,000 or more prime manufacturing jobs forever.

Despite our efforts though, we are stymied by a lack of broad-based U.S. industrial policy and the unfair trading practices of other nations and their industries. Japan heads that list, but unfair trade practices in other emerging auto powers such as South Korea, Taiwan and Mexico demand action <u>now</u> to avoid a repeat of Japanese-style one-way trade.

How has Japan's approach to the world automotive market disrupted our industry? As we have shown, Japan would like free trade to be a one way street, selling freely here while barring all but a few products which they themselves cannot produce economically. Japanese firms compete with us worldwide and enjoy the competitive

edge of selling to the growing worldwide aftermarket, a lucrative market that we cannot enter.

American suppliers need not travel to Japan to face rejection, for they can find it right in Japan's U.S. assembly plants. Total U.S. parts exports to Japan in 1985 were a paltry $190 million. American firms don't fare much better in their own backyard. Take the case of the much publicized list of U.S. suppliers doing business with Nissan Motors U.S. automobile trucks plant in Tennessee, which I have attached as Appendix E. While we are pleased for every firm that won a contract, we would caution that little of what we define as parts is included. Many of the products are generic--such as steel, glass, carpeting, sealants--and don't buy us anything in aftermarket sales or export opportunities. Nissan car production fits the same mold, with every major system, from engines and transaxles to brakes and electrical, coming from Japan.

While Honda and NUMMI (GM-Toyota) have not disclosed their local supplier relationships, we have it on the word of top Japanese analysts that 80 percent of the parts and components assembled here by Japanese OEM's originate in Japan. Even more distressing is the fact that a good share of so-called 20 percent local content is supplied by a growing network of traditional Japanese suppliers who have followed transplanted OEM's to the U.S. and Canada.

Why should it be any different here? After all, they are trying to defuse Congressional hostility and avoid the hanging sword of

protectionism. They respond to clout. But, to date, they have found nothing but easy access, be it for a flood of landed cars, or what is the rough equivalent of a growing number of knock down car kits.

Three policy areas require immediate Congressional attention, Mr. Chairman, if we are to prevent Japan's and other nations' auto industries from exploiting U.S. openness to our industry's peril.

Congress should order the DOC Foreign Trade Zone (FTZ) Board to stop further proliferation in FTZ subzone grants to auto making plants, until DOC takes steps to reform the accountability of this $2 billion program, and until the public policy pros and cons can be weighed. Use of the zones has soared from one in 1981 to 12 today, with another 10 applications expected soon. Subzone activity reporting is so inadequate that we only have 1984 data. Even worse is the fact that although two firms, Honda and Nissan, accounted for 40 percent of foreign goods entering subzones--$900 million worth--the Board can not break out parts and components for car assembly versus plant equipment. In return for the hefty duty savings--parts are taxed at 2.6 percent car duty rather than the average 4-6 percent parts tariff--Japanese OEM's promised to increase their local sourcing. Other than buying from transplanted suppliers who set up shop next door to underused American suppliers, no boost in local sourcing is on the horizon.

The method for weighing the public benefits also needs revamping, from a micro approach that looks at the gain to a local community

to a macro approach that looks at the national economy. As the UAW has noted, transplanted Japanese auto making plants only give one-fourth of the job benefits that a U.S. plant gives because the parts are made in Japan. One would think that the use of an input/output model would raise some red flags. With American suppliers scrambling for a piece of Japanese OE markets, this is hardly the time to be giving multi-million subsidies to Japanese parts imports. We must stop the export of American jobs and profits.

Our Auto Pact with Canada presents another opening for abuse. Lured by attractive Canadian government/industry packages, Japanese and other unintended third parties launch Original Equipment duty-free into the U.S. We contend that that Auto Pact must be reviewed. But, the immediate concern is that should the U.S.-Canada Free Trade Agreement talks go fast track, Congress should direct our negotiators to keep aftermarket trade off the table. To do otherwise would allow a duty-free blitz on our huge $100 billion aftermarket, with the 4-6 percent duty savings being banked as pure profit. My testimony before the Senate Finance Comittee explains our position and is attached as Appenix F.

Canada has so much bounty to give that our states complain that even their best packages are only half of the Canadian loaf. Of course, we would caution states against greasing the market entry for Japanese competitors at the expense and peril to existing suppliers, especially their own long established taxpayers. While

we don't see any end to this interstate rivalry, we do urge that Congress prohibit states and cities from using federal funds to import foreign manufacturing.

Why don't the Japanese OEM's buy American products, and what made it so bad that Canada gave up on exporting? Japan ostensibly has no tariff barriers, so that is not the cause. We agree with our Canadian friends that the primary reason is the Japanese OEM's close ties to their supplier families, trading companies and banks that present massive institutional barriers. Needless to say, Japan has its sight set on removing the U.S. as the world's leading automotive products producer, and if they can grab all the profits they will. Other factors cited, such as labor cost differentials, are not of themselves insurmountable. The underlying cause is that they simply have not yet found it in their best interest to buy from us.

We will not concede, as have the Canadians, that the institutional barriers cannot be surmounted. Rather, we urge prompt Congressional enactment of our Parts Purchase Incentive Plan--tailored after Canada's duty remission program--that we believe will press those Japanese car companies' self-interest buttons to lift those barriers. We believe the Plan would create American jobs, equip vehicle imports with American equipment and set off a chain reaction of growth in aftermarket sales. The incentive to buy would be a dollar of credit against vehicle duty for each dollar of American product purchased by foreign based auto

makers. Instead of the incentive offered under current "American Goods Returned" law, our credit approach puts a real economic incentive in front of the Japanese. I have attached copies of our Plan Rationale, legislative draft, legislative analysis, Canadian duty remission law and regulations as Appendices G, H, I, J and K.

Let me discuss briefly some of the other items on our agenda.

Tax reform must keep the Investment Tax Credit and be built to meet the long term tests of global competition. At a time when Japan plans to beef up capital formation breaks, it is no time to gut ours.

Congress and the Administration must continue their ordered march to a balanced budget. That step together with the Congressional push for sound international monetary policy gives us hope that the current yen:dollar relationship will be more than a passing fancy.

Trade law reform must respond squarely to foreign practices that block our exports or target domination of our market. Then, Congress must push to make sure the laws are enforced.

In closing, let me first note that it is now or never if we are to save a pillar of our national ecomony. How will the game end if we don't get help. We need only look to other industries who faced the question and now are defunct: cameras, watches, consumer electronics, and shipbuilding. The answer is Japan will have it all.

We need your help to get the job done. First, help us get MOSS, and then support those negotiations as well as the TFC effort. Our negotiating strength is only as good as the Congressional muscle behind it. By combining clout with our Parts Purchase Incentive Plan, the U.S. would present the Japanese with a strong package of political and economic reasons for Japanese OEM's to develop suppliers outside their families.

Together with our other recommendations, we have a plan designed to meet the tests of the real world of trade and all of its market distortions.

We are anxious to work with the members of this committee and your colleagues to get started on our proposals and the development of other viable solutions.

We appreciate this opportunity to review the bilateral parts trade picture, with all of its challenges and opportunities. We would be happy to answer any questions you may have.

# APPENDICES A,B,C,D,E,F,G,H,I,J,K

TO THE

TESTIMONY OF

ROBERT W. McMINN

SENIOR VICE PRESIDENT OF

PLANNING/DEVELOPMENT

FOR THE

AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION, INC.

PRESENTED TO

THE SUBCOMMITTEE ON TRADE, PRODUCTIVITY

AND ECONOMIC GROWTH

OF THE JOINT ECONOMIC COMMITTEE

APRIL 24, 1986

APPENDIX A

U.S.-JAPAN TRADE IN MOTOR VEHICLE PARTS AND ACCESSORIES 1981 - 1985

(in thousands of dollars)

| | 1981 | 1982 | 1983 | 1984 | 1985 |
|---|---|---|---|---|---|
| Exports to Japan | 118,991 | 127,847 | 148,368 | 179,205 | 191,000 |
| Imports from Japan | 1,821,699 | 1,822,344 | 2,112,954 | 2,939,927 | 4,200,000 (1) |
| Trade Balance | -1,702,708 | -1,694,497 | 1,964,586 | 2,769,722 | 4,000,000 (2) |

1. Includes estimated $1.2 billion in Foreign Trade Zone subzone imports by Japanese OEM's
2. Trade imbalance reflects the above

APPENDIX B

AUTOMOTIVE PARTS & ACCESSORIES ASSOCIATION

May 1, 1985

RECOMMENDATIONS FOR ACTION ON U.S.-JAPAN AUTO PARTS TRADE PROBLEMS

As the representative of more than 850 U.S. automotive product manufacturers facing unprecedented levels of Japanese import penetration while being denied significant share in the Japanese car company-controlled markets, the Automotive Parts & Accessories Association (APAA) recommends two principle objectives for bilateral parts trade talks the week of May 6:

1) That our USTR negotiators ask their trade policy counterparts to agree to the establishment of a separate working group dedicated to bilateral parts trade problems. The issue of severely limited market access to Japan's original equipment and replacement parts markets has troubled U.S. suppliers since the late 1970's and has worsened each year to the point of industry crisis.

2) That USTR negotiators ask to review the plans of nine Japanese auto companies for boosting automotive product imports. These plans are to be prepared by individual company task forces for presentation to MITI in May, and their provisions will have great bearing on attaining U.S. export objectives.

ACTION ON IMPEDIMENTS TO U.S. EXPORTS URGENTLY NEEDED

Earlier initiatives launched by the USTR in 1980 culminated in the establishment of a Trade Facilitation Committee (TFC) devoted solely to parts trade problems. Designed to monitor U.S. sales progress associated with the 1980 Japanese government-sponsored auto components purchasing mission, the TFC also functioned as a forum for resolving disputes over alleged trade barriers. Although the program was an excellent foundation for progress, the effort was abandoned in 1981 when the newly inaugurated Voluntary Restraint Agreement (VRA) superceded the parts trade issues.

While the government has not formally monitored industry's trading situation since 1982, a recent APAA survey of industry manufacturers probed impediments to selling to Japan's car companies--or original equipment manufacturers (OEM's)--and to the non-OEM-controlled aftermarket.

5100 FORBES BLVD., LANHAM, MD 20706, 301/459-9110, TELEX: 4990739 APAA INT (VIA ITT)

Forty firms representing a composite of the American supplier industry participated in the survey. They include producers of component parts for all the major systems of an automobile, as well as manufacturers of accessories, car care products, chemicals and service equipment.

While 31 of these firms indicate that they have tried to penetrate OEM-controlled markets, only 14 have attempted inroads in the non-car company-controlled aftermarket. This difference is due largely to the fact that most U.S. overtures to source original equipment have failed, thereby denying the economies of scale necessary to produce for the aftermarket.

The balance of this report will discuss the survey findings.

## JAPANESE OEM PRACTICES THAT THWART U.S. EXPORT SALES

The difficulties encountered in trying to break into the car company-controlled markets belie claims made by MITI and JAMA in 1980. At that time they boasted that car company actions taken prior to, during, and after the parts purchasing mission had created equal opportunities for U.S. suppliers seeking to bid on contracts.

Far from the openness that the 1980 mission was to usher in, the following discussion of U.S. firms' experiences shows that the lock on the home markets remains tight. MITI would do well to raise these concerns with their auto makers when they review their import action plans. Findings are arranged in order of frequency cited.

1. Unfair advantages given to Japanese suppliers (17)
The common thread running through the industry remarks is that regardless of who solicits sales talks, U.S. suppliers or Japanese OEM's, the bottom line is the same: no sale. Invariably, the OEM's tip the playing field advantage to their own supplier networks or "families."

Leading manufacturers of engine parts, fuse-blades, breaks, and chemicals all observed the same blunt message: we only buy Japanese products. This, in spite of the fact that these firms' sales flourish in other markets, and in spite of the desire to, if nothing else, at least source equipment for cars destined for U.S. markets.

2. Unreasonable delays in negotiations (13)
A major manufacturer of seals contends that Japanese foot-dragging was a leading cause of their failure to gain sales from the 1980 purchasing mission.

In another instance, a Japanese OEM approached a major U.S. manufacturer of car care products. They asked for samples, data sheets and specifications, only to refuse further contact. In many cases, the practice of wearing down the competition reaps the extra advantage of keeping lucrative aftermarket sales solely to family OE suppliers.

3. Difficulty in obtaining information needed for bids (9)
Although Japanese OEM's have presented many elegant charts on how to seek approval for U.S. products, U.S. suppliers cite the withholding of information as a common barrier.

A producer of thermostats and electrical equipment reports that his firm did not get enough information to submit a competitive bid. Nonetheless, they submitted samples for approval, never to be heard from again.

4. Unreasonable engineering or design standards (7)
A spark plug manufacturer relates a classic story of how a differentiation in standards can effectively block U.S. OE sales. In this case, Japan uses a JAS rather than the SAE/ISO standard used elsewhere.

5. Frequent product modification requests (7)
A supplier of gaskets relates a characteristic story. The company not only received inadequate time to meet specifications, but the OEM made numerous changes. Given the constantly changing demands, the firm gave up hope for Japanese sales.

GOVERNMENT RELATED NONTARIFF TRADE BARRIERS

The survey revealed a number of instances where U.S. firms seeking to enter the "independent" Japanese aftermarket -- that portion not controlled by the OEM's -- are hindered by government inspection/safety standards. APAA is most pleased that the heads of Nissan and Mitsubishi left the April 22nd government/industry meeting pledged to seek reform of regulatory and bureaucratic hindrances to parts trade.

1. Major shock absorber manufacturers report the use of safety certification as a hurdle. Japan's government must approve all catalogues for imported shocks. And, each of Japan's 50 prefectures is technically obliged to inspect the equipment.

Japanese motorists who fear failure of their annual vehicle inspection because of "non-genuine" shocks reportedly switch Japanese-made for U.S.-made shocks to pass inspection.

There also are reports of independent aftermarket installers repainting white U.S. shocks black in order to simulate the original equipment.

2. A lighting producer relates that their aftermarket access is hampered by a regulation that the bulbs in both headlights must be the same brand. Even though the company offers a replacement bulb identical to the original equipment, their sales are blocked by this same-brand requirement.

3. An automotive paint manufacturer finds market access blocked by a rule prohibiting storage of more than three paint drums in any one warehouse. Native firms with their own storage facilities are not affected.

4. A manufacturer of speed control devices complains that government approval has proven highly elusive. Without the approval, there would be no hope of independent aftermarket installation. Rather, installation would be OEM - controlled.

5. An additive manufacturer reports that problems in meeting aerosol can specifications for wall thickness and maximum size will force them to produce locally under license.

BARRIERS POSED BY THE DISTRIBUTION NETWORK

Eleven respondents noted enormous obstacles to market entry posed by Japanese distribution practices. The most prevalent complaint is that Japanese distributors limit penetration by demanding exclusive distribution rights.

Two examples typify other problems.

1. A spark plug company relates that the key barrier to its aftermarket distribution is the stranglehold that the OEM's have on aftermarket distribution, a grip that yields them a 70 percent aftermarket share (vs. less than 20 percent domestic OEM share in the U.S. aftermarket).

2. A leading engine parts maker, who for lack of Japanese OE business cannot compete in the Japanese aftermarket, also finds that no one will handle its line of competitive replacement parts for U.S.-made vehicles in Japan.

APPENDIX C

January '85

Through APEC, APAA convinces the U.S. Department of Commerce to develop a program aimed at using government promotion and policy to help the auto parts industry boost sales to Japan.

March '85

Prompted by APAA documentation prepared on the auto parts industry's behalf, agreement by Departments of State, Commerce and USTR is reached to place auto parts on the U.S.-Japan bilateral negotiating agenda.

APAA spearheads an auto parts industry showcase of U.S. auto products at Japan's "Made in USA" trade fair in Nagoya, Japan.

Julian Morris, APAA president, meets with Deputy USTR Ambassador Mike Smith in Japan to review details of U.S.-Japan parts trade problems.

Morris also meets with key officials of Japanese government and industry to examine trade potential and problems. He issues an invitation to attend the APAA Show in August.

April '85

At a meeting of the U.S.-Japan Trade Committee, USTR negotiators indicate that if momentum of increased Japanese buying of U.S. parts and accessories is not evident soon, U.S. would formally move to begin formal bilateral negotiations.

April/May '85

Japan Prime Minister Nakasone urges private sector companies including car companies to set import goals. APAA responds immediately with sales literature and roster of over 100 APAA members as a demonstration of U.S. auto parts companies seeking business with the Japanese.

May '85

APAA prepares for Commerce Secretary Baldrige and the Office of the Special Trade Representative a compendium of barriers constructed by the Japanese government and auto industry to thwart U.S. auto parts sales.

Senators Lugar, Levin, Reigle, Heinz and Eagleton write to Japan's Minister of International Trade and Industry, emphasizing that auto companies are largest beneficiaries of record high U.S.-Japan trade deficit and encouraging car companies to take an active role in import promotion program in order to avoid further trade difficulties.

On the occasion of the Bonn Economic Summit, U.S. again presses Japan on U.S. auto parts purchases.

June '85

APAA meets with Commerce Department's Office of Japan to suggest a three-part initiative to pry open Japanese markets. The three-part plan, consisting of a Japan government backed trade mission of Japanese buyers to the APAA Show, a reciprocal selling mission of U.S. companies and establishment of a U.S.-Japan auto parts trade facilitation committee to investigate trade problems, is accepted and implementation proceeds.

July '85

A Congressional delegation, briefed by APAA, travels to Japan to discuss auto parts issues, encourage progress and express U.S. concerns about auto parts trade deficit and reports of barriers to trade. Earlier invitation by Morris to Japanese buyers to attend the APAA Show is reiterated by Congressional delegates.

Japanese formally accept invitation to APAA Show after discussions between top officials of U.S. Department of Commerce and Japan's Ministry of International Trade and Industry.

Work proceeds between APAA and Japan Automobile Manufacturers Association to arrange functions at APAA Show to bring parts buying companies and APAA members together.

August '85

First goal of three part APAA Japan Initiative is reached with attendance at the APAA Show of a 48-member delegation from nine Japanese car companies and three export trading companies.

In his first visit to Japan as USTR, Ambassador Clayton Yeutter tells MITI Minister Murata that it is in Japan's best interest to encourage private sector imports of parts. In a letter to APAA president Morris, Yeutter promises to continue push to open markets.

Industry Sector Advisory Committee, an advisory group to the Department of Commerce and the USTR's Office of which Morris is a member, votes overwhelmingly to endorse Commerce's U.S. Export Initiative for Japan which incorporates APAA's initiative program. The Initiative, an outgrowth of APEC's directive in January, promises one major market opening event per year.

APAA begins work with Representatives Levin and Kaptur on developing a program for a conference on trading with Japan.

November '85

APAA assists APEC in arranging contingent of U.S. auto products suppliers to participate in the 20 booth U.S. Pavilion at the Tokyo Motor Show.

January '86

APAA inspired "Trading with Japan" conference is held for 150 U.S.industry participants in Southfield, Michigan, sponsored by the Northeast/Midwest Congressional Coalition with assistance from APEC, JAMA and the Japanese Embassy. Participants include representatives from the Japanese car companies, JAMA and the Japanese Embassy.

February '86

As a result of a year long push by APAA, serious consideration by Departments of State, Commerce, Treasury and the Office of the USTR commences on adding auto parts to the MOSS (Market Oriented Sector Specific) agenda. By agreement between President Reagan and Prime Minister Nakasone, the highly selective MOSS negotiations command top resources and attention by both governments. Limited to a maximum of four industries, MOSS talks are aimed at achieving major breakthroughs to help reduce the gigantic bilateral trade deficit.

Chief negotiators from the Commerce Department and USTR give APAA clear signal to seek MOSS selection aggressively.

Representatives Rostenkowski, Dingell, Gibbons, Wright, plus other major Congressional leaders add their weight by calling on the Administration to add auto parts to MOSS.

APAA staff meets with DOC chief negotiator to develop US agenda for trade facilitation committee between US and Japan. Issues to include concerns about the influx of Japanese suppliers into US market, interwoven relationships between Japanese car companies and their suppliers, and Japanese government and industry barriers to trade.

April '86

Department of Commerce leads an APAA backed trade mission to Japan, consisting of parts executives interested in a greater share of the Japanese controlled markets in the US, Japan and elsewhere. Mission is preceded by a full day's briefing by officials from the Departments of State and Commerce, the USTR's Office and the White House. US Embassy arranged meetings in Japan are set with car companies on executive, sales and technical levels.

First meeting of U.S.-Japan auto parts trade facilitation committee is held in Japan to begin pursuing specific trade problems identified by APAA. Heading the committee for the U.S. parts industry are chief DOC negotiator Clyde Prestowitz and H.P. Goldfield, Assistant Secretary of Commerce.

AUTOMOTIVE PARTS & ACCESSORIES ASSOCIATION

APPENDIX D

February 5, 1986

TO: Sara Bowden, International Economist, Office of Japan, DOC

FR: Lee Kadrich, Managing Director, Government Affairs & International Trade, APAA

RE: ANALYSIS OF PRESENT AND FUTURE JAPANESE VEHICLE EQUIPMENT NEEDS

I. JAPANESE AUTO PARTS PRODUCTION

(Million Yen)

(Percentage Growth Over Prior Year)

| | OE | AFTERMARKET | TOTAL |
|---|---|---|---|
| 1980 | 3,816,925 (+15%) | 828,578 (+7%) | 4,792,501 (+15%) |
| 1981 | 4,086,197 (+7%) | 644,200 (-22%) | 4,936,109 (+3%) |
| 1982 | 4,196,496 (+3%) | 672,314 (+5%) | 5,073,393 (+3%) |
| 1983 | 4,852,619 (+16%) | 739,103 (+10%) | 5,852,602 (+15%) |
| 1990(est) | 10,000,000(1) | 1,052,461(2) | 10,974,000(3) |

(1) Based on 10.1% average annual growth

(2) Based on 4.5 average annual growth, estimated by Pacific Projects, Ltd.

(3) Based on four-year average annual growth of 9%

5100 FORBES BLVD., LANHAM, MD 20706, 301/459-9110, TELEX: 4990739-APAA INT (VIA ITT)

II. SOURCING U.S.-BASED JAPANESE ASSEMBLERS AND THE U.S. AFTERMARKET FOR OUR JAPANESE-MADE VEHICLES

OE Potential:

According to Japan Auto Parts Industries Association, cited in JETRO's 1985 edition of Your Market in Japan: Automotive Parts, Accessories and Supplies, Japanese automotive parts production for fiscal '83 (Apr. 1, 1983-March 31, 1984) breaks out accordingly:

| | | |
|---|---|---|
| Total (Net of Exports) | 5,877.4 billion yen | ($24.7 billion) |
| OE Consumption | (83%) -- -- | $20.5 billion |
| Aftermarket: | (12.0%) -- -- | $ 3.0 billion |

Based on 7.2 million passenger cars produced in Japan during the period, average OE consumption per vehicle is $2,900.

Using the $2,900 figure, one can estimate that the 270,000 units produced in the U.S. by Japanese car makers (150,000 Honda cars and 120,000 Nissan trucks) could have required as much as $783 million worth of OE.

U.S. based production by Japanese OEM's should increase to 770,000 by 1988, a five-fold increase in production. Using constant 1984 dollars this production level would require an estimated $2.3 billion worth of OE.

Aftermarket Potential

According to the study done for DOC by Western Reserve Associates, (March, 1985), the U.S. replacement parts markets for Japanese had a retail value of $3.7 billion in 1982. Sales which are expected to rise at 9.5 percent per year through 1990, should reach $5.7 billion in 1986 and $8.0 billion in 1988.

Total Potential - 1988

| | |
|---|---|
| $ 2.3 | billion OE |
| 3.0 | billion aftermarket (adjusted for WSD prices) |
| $ 5.3 | billion |

III. U.S. SUPPLIER SHARE IN TOTAL JAPANESE PARTS MARKETS

Pacific Projects, Ltd. estimates that U.S. suppliers accounted for 51% of the total foreign share in Japan's parts market in 1983:

| | |
|---|---|
| U.S. sales | $125 million |
| Total imports | $246 million |
| Total Japanese market including imports | $ 26 billion |

U.S. Share of Total = 0.001

Since Pacific Projects estimates approximately 8 percent annual growth in U.S. exports and total foreign shipment to Japan, the 1988 figures may be estimated at:

| | |
|---|---|
| U.S. sales | $195 million |
| Total imports | $385 million |
| Total Japanese Market including imports | $ 40.4 billion |

U.S. share of total = 0.005

IV. CURRENT U.S. SHARE OF TOTAL JAPANESE PARTS MARKETS IN THE U.S.

Total 1984 U.S. imports of Japanese parts, including those used in both Japanese and domestic vehicle assembly plants designated as FTZ subzones, exceeded $4.2 billion.

Against these imports were a total OE demand of $1 billion (including Honda, Nissan, and the start-up of NUMMI production) and, aftermarket demand was gauged at $1.5 to $2.0 billion.

U.S. Share in the U.S. Aftermarket for Japanese Vehicles:

The WRA study noted above argues that the independent aftermarket producers held a 45% share of total $4.0 billion retail aftermarket in 1984. Independent share is projected to rise above the 50% mark by 1988, with growth of 1-2% per year. However, similar projections made by JAMA in 1980 projected a 60 percent independent share in this aftermarket by 1985. We believe the WRA estimates also will miss the mark.

U.S. Share in OE Market:

While the projections for the aftermarket are dubious, we have even less to go on in estimating American firms' share in the OE market for U.S.-based Japanese OEM's.

The attached list shows Nissan's material and component suppliers as of 1984. Honda and NUMMI have not disclosed their local suppliers.

Net of foreign-based firms Nissan sourced $130 million for the production of 120,000 light trucks. The average value of local content per unit is under $1,100, about 40 percent of the total content.

NOTE: DOING THE SAME CALCULATIONS AT TODAY'S MORE REALISTIC EXCHANGE RATE OF 200 YEN TO THE DOLLAR, TOTAL JAPANESE OE CONSUMPTION WOULD BE $23.2 BILLION, THE AVERAGE OF CONSUMPTION PER UNIT WOULD BE $3,200, AND THE NISSAN CONTENT RATIO WOULD DIP BELOW 35 PERCENT. The average for all three current operations very likely runs below 25 percent, especially in light of Toyota's public complaints about difficulties finding "qualified" local sources.

V. POTENTIAL GROWTH IN U.S. SUPPLIER SALES ABSENT GOVERNMENT INTERVENTION

Unless U.S. government pressure comes to bear through the MOSS talks, demanding significant Japanese market opening steps, we must conclude, as have a number of noted analysts, that American suppliers will experience a permanent 20% to 30% decline in sales through the end of the decade.

APPENDIX E

PACIFIC AUTOMOTIVE CO-OPERATION INC

For Release
August 1, 1985

JAPANESE AUTO PARTS INDUSTRY
INTEREST IN CANADIAN INVESTMENT GROWS

TORONTO -- Long-term lower operating costs and access to an integrated North American market are two of many reasons that Japan's automotive parts makers are showing greater interest in investing in Canada, according to recent Japanese industry findings.

Two vice-presidents of Pacific Automotive Co-operation, Inc. (PAC), Toronto, returned to Japan last month to present these and other assessments of the Canadian investment climate and unique characteristics of Canada's auto parts manufacturers to Japanese auto parts companies. Mr. N. Takahashi and Mr. T. Ueda also discussed possible investment intentions of the Japanese firms.

"In a series of seminars and individual company meetings, our effort to promote investment by Japanese parts manufacturers in Canada received wide attention," said Takahashi. "In all, 69 major companies attended three seminars, with most undertaking to seriously study investment in Canada and a few actually looking at very immediate possibilities. In addition, we were pleasantly surprised to find the seminars widely reported in the Japanese business media."

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(416) 222-0700

The PAC seminar series was the first organized attempt within Japan to promote Canada as an attractive market for auto parts investment by providing a systematic, in-depth study of the Canadian automobile investment climate and industry capabilities, he said. "Because of the current strong interest of Japanese auto parts makers in investing in North America, they expressed an avid desire to learn more about investment opportunities in Canada."

The recent seminar series resulted from a perception that Japanese auto parts makers generally had only a superficial familiarity with the Canadian auto sector and investment potential. Because many parts makers are actively pursuing plans for increased North American investment, PAC felt that now was an opportune time to direct their attention to Canada. As the Canadian auto indusry has been relatively low-profile compared to the U.S., it was necessary to provide a detailed description of Canada as a viable alternative to investment in the U.S., said Takahashi.

"The information we presented to the Japanese industry surprised many," he said. "For instance, the Canadian parts market is larger than the average Japanese businessman expects, in part because current vehicle production is greater than one-tenth of U.S. production, the old rule of thumb used by many foreign observers (including Japanese) of Canada. In fact, with Canadian total vehicle production nearly 2 million units per year and American production at about 11 million units, the ratio is closer to 20 percent."

Because of the provisions of the Auto Pact, the Canadian and U.S. parts markets are highly integrated and parts manufacturers in Canada have easy access to the U.S. market, a fact that aroused great interest, he said. "The Auto Pact actually makes it easier for parts firms in Canada to export to the U.S. market rather than trying to enter Canada from the U.S. side. We suggested to the Japanese parts makers that, when launching in North America, it is easier to come to Canada and start by selling to the Canadian market and to the Canadian operations of the Big Four; after success here, then spring-board into the U.S. market. This could be done in Canada through an operation started from scratch, through licensing or technology transfer or through joint venturing with a Canadian counterpart."

Takahashi said that the Japanese were also impressed by manufacturing cost comparisons demonstrating that while the initial investment cost is higher in Canada than the U.S. (with government incentives often more clearly stated at the outset by states as opposed to Canadian juristictions) the operational running cost is lower in Canada than in the U.S.

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"For instance, we showed vehicle assembly labor base pay in Canadian dollars is $10.48 in Canada versus $13.20 in the U.S.; by the time other payroll compensations and fringe benefits are added, the differential is $20.73 in Canada versus $30.52," said Takahashi. "Likewise, in comparing labor costs of a medium-size non-union auto parts maker in Ontario versus Tennessee, the difference in total compensation per hour is $9.55 in Ontario and $10.98 in Tennessee.

The higher initial cost in Canada is partly due to land prices, he said. "In Chatham, Ontario, for instance, land is $20,000 - $40,000 per acre compared with $10,800 per acre in Battle Creek, Michigan or $13,500 - $18,900 in Lexington, Kentucky. Building leasing costs are about the same."

However, ongoing utility overheads are markedly less expensive. Electricity is $39.86 per 1,000 kilowatt hours in Ontario compared with $125.56 in Kentucky, a typical U.S. cost. Natural gas is about $21.10/1,000 $m^3$ in Ontario compared with $29.57/1,000 $m^3$ in Kentucky, he said.

"In fact, the average industrial electricity rate in Ontario is less than $4.00 per 100 kilowatt hours, lower than any other OECD country and less than half the $9.00 paid by firms in Japan," Takahashi said. "These low energy costs -- coupled with lower labor rates, steel materials and other major supplies at about the same level as the U.S. or cheaper -- are very attractive to potential Japanese auto parts investors."

The PAC seminars also reviewed trends in purchasing policies of North American auto makers, such as increased switching to out-sourcing to reduce costs, greater emphasis on whole system component purchase and introduction of just-in-time inventory and manufacturing systems.

"Potential investors were also impressed with the strategic location of Ontario which is only a single day's trucking of 120 million consumers and 53 percent of the North American industrial market and with the export consciousness of Ontario, where total exports per capita are more than triple that of Japan or the U.S.," Takahashi said.

PAC also outlined the extent of the automotive industry in Canada, pointing out that there are 34 major assembly and in-house parts plants in Canada of member companies of the Motor Vehicle Manufacturers' Association, and that there are 801 auto parts makers in Ontario with the domestic industry characterised by small firms (60 percent of manufacturers in Canada have less than 100 employees) and multi-national content (30 percent of total production value is in-house parts and 40 percent is from branch-plant operations).

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Auto parts suppliers in Canada thus tend to not have a high R & D capability to manufacture sub-components and because of their smaller size, many firms lack high expertise in production engineering and marketing (a major strength of the Canadian industry is in the stamping and plactic moulding), he said. As well, there a number components that are not manufactured at all in Canada, including distributors, alternators, starting motors, fly wheels, fuel injection systems, electronic control units and sensors, fuel pumps, engine mounts-fluid, front hub assemblies, steering columns, rack-and-pinion gears, steering systems, front brake calipers and rotors, rear brake assemblies and brake master cylinders.

"We recommended that the Japanese auto parts makers consider most strongly for Canadian investment such items as motors, mirrors, clocks, meters, instruments clusters, controls, switches, cables, heaters, oil seals and car audio systems," said Takahashi.

"Certainly, there are a number of promising areas for investment in Canada including system components because there is little competition, electronic devices because of Canadian transportation efficiencies, assembly parts because they are moderately intensive in labor which is more attractively costed in Canada, and electronic devices and trim parts because of the compact car technology utilization in Canada," Takahashi said.

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"We believe our presentation had high credibility because PAC is staffed by Japanese automotive businessmen who view Canada through the same eyes and from the same assumptions as the people to whom we presented, and we are seen to be unbiased in our conclusions," he said . The seminars dealt only with the original equipment market not after market parts.

The Japanese parts makers responded very positively to Canada as an investment candidate, Takahashi said. "Although we don't think that greatly increased investment here will materialize immediately from these seminars, we are glad to see the Japanese interest in Canada is steadily increasing. To match this greater attention, it is up to individual Canadian companies to come forth with specific proposals. Successful negotiations will depend on the ability of Canada to cultivate parts makers capable of being investment partners with Japanese counterparts and the availability of attractive investment incentives competitive with those offered by the U.S."

PAC was incorporated in Toronto in March 1984 to assist the growth of the Canadian and Japanese auto parts industries. Its founders include 11 members of the Japan Automobile Manufacturers Association and 21 members of the Japan Auto Parts Industries Association.

-30-

For further information:

Mr. Takeshi Tanahira
President

or

Mr. Noboru Takahashi
Vice-President

Pacific Automotive Co-operation, Inc., (416) 222-0700

Agreements announced by PAC during the past year

| | COMPANY NAMES | DATE ANNOUNCED | NATURE OF AGREEMENT |
|---|---|---|---|
| (1) | Magna International Inc.<br>Niles Parts Co. | August 1984 | License agreement for electronic parts |
| (2) | Progressive Moulded Products<br>Usui Kokusai Sangyo | November 1984 | Technology transfer and sub-contract agreement |
| (3) | G.S. Woolley 1978 Ltd.<br>Marui Industrial Co. | November 1984 | Joint venture for emblem manufacturing |
| (4) | Waterville Cellular Products<br>Toyoda Gosei | November 1984 | Engineering assistance agreement for weather-strip production |
| (5) | Lear Siegler Co.<br>NHK Spring Co. Ltd. | May 1985 | Mutual technology assistance agreement for auto seats |
| (6) | Waterville Cellular Products<br>Inoue MTP Co. Ltd. | May 1985 | Joint venture for instrument panel manufacturing |

APPENDIX F

STATEMENT OF

ROBERT W. McMINN

SENIOR VICE PRESIDENT OF

PLANNING/DEVELOPMENT

FOR THE

AUTOMOTIVE PARTS AND ACCESSORIES ASSOCIATION, INC.

PRESENTED TO

THE COMMITTEE ON FINANCE

UNITED STATES SENATE

APRIL 11, 1986

RE: U.S.-CANADA FREE TRADE AGREEMENT

Mr. Chairman and Members of the Committee:

I am Robert McMinn, Senior Vice President of Planning and Development for the Automotive Parts and Accessories Association (APAA). Thank you for the opportunity to meet with you today.

Mr. Chairman, we are here today to ask you and the committee to urge our negotiators to keep automotive aftermarket trade off of the bilateral bargaining table. Both Ambassador Yeutter and Secretary Baldrige learned our views early on, following Prime Minister Mulroney's September 26, 1985 proposal. We are pleased to say that Ambassador Yeutter has tapped us as advisors. APAA is largely playing that role through our president, Julian C. Morris, who serves on the Transportation Equipment Industry Sector Advisory Council (ISAC) 16.

APAA is a trade association located in Washington, D.C. Our association represents 950 manufacturers producing parts, accessories, tools, equipment and supplies for consumption in the Original Equipment Manufacturers (OEM) (car companies) and consumer markets. It is the consumer markets, the aftermarket, where our industry makes its greatest profits and where most of our members' products are sold. We have another 700 members engaged in selling, as members of the distribution chain, manufacturers' representatives, export management companies, and retailers.

The aftermarket is vital to the nation's economy. In fact, our financial health means more to America's economic well-being than even that of the OEM's. Not only do we have more companies -- some 40,000 firms engaged in automotive supply -- but we also have double the employment of the OEM's and their dealers. The automotive supplier industry also is essential to American military might, as demonstrated by past mobilization efforts. And, in the vital area of trading strength, our industry plays a key role. In 1985, industry firms exported $13.7 billion worth of parts and accessories, including $9.3 billion -- 70 percent of the total -- to Canada.

Given Canada's place as America's leading trade partner, it is understandable that the Macdonald Commission Report on Canada's economic future made the free trade proposal its centerpiece. We also recognize that the concept has many Administration and Congressional proponents who wish to eliminate tariff barriers between principal trading partners. We believe the proposal is worthy of the serious study undertaken by this committee, and we recognize that there are sure to be some industry sectors in both nations where a free trade agreement would prove mutually beneficial.

APAA does not believe that this would be the case for the automotive aftermarket industry. As inviting as "free trade" sounds to an industry whose survival hinges on gaining access to global original equipment (OE) and replacement parts markets, it

takes a fair and open trade regime to make it work. We have this with Canada, but we do not have it with one unintended third party that would benefit by the agreement -- Japan -- and we may not have it with Korea and others that settle in Canada.

Japanese suppliers are heeding the siren call of Canadian government/industry investment enticements. Under a free trade regime, these Japanese firms would get a huge bonus: aftermarket exports launched duty-free from Canadian bases into America's $100 billion plus aftermarket. They could bank the average 4-6 percent duty savings as pure profit.

While the U.S. aftermarket is the major prize in world parts trade, Canada's aftermarket, while important, is but one-tenth the size of ours. On paper, the removal of their high 9-10 percent aftermarket tariff walls may look like a major break for U.S. exporters. But, if access to a smaller Canadian market must come at a cost to domestic market competitiveness by ending our minimal U.S. tariff protection, then it is too high of a price to pay. Were it truly trade between the two domestic industries, the issue could be viewed in a different context.

Both nations' parts industries have found their survival threatened by Japanese barriers that thwart OE sales and take a toll on aftermarket sales in North America, Japan, and in export markets dominated by Japan. However, the similarity ends there, now that Canada's response to the threat has shifted radically. I witnessed

their new strategy at the Tokyo Motor Show last fall, where the U.S. and Canada had the only two foreign pavilions. While our firms tried to sell U.S. made products, Canada was selling Ontario real estate.

It is important to note that prior to this new approach, Canada had a longstanding commitment to gaining market access for its parts and accessories manufacturers. Concern for its supplier base spurred the 1975 implementation of a duty remission program for imported vehicles. The objective was to induce foreign based auto makers to buy Canadian content, by netting out the value of that content from the dutiable value of the car maker's shipments to Canada. The 10 percent plus Canadian tariff makes this a valuable incentive. (Copies of the statute and implementing regulation are attached as Appendices A and B).

In one spin-off of this program, Canada offered Volkswagen (VW) duty free importation of cars into Canada in exchange for their manufacture of parts in Canada for export to VW's U.S. assembly plants. That plan was cut short by the auto making depression and the deep plunge in VW's equipment demands.

Finally, Canada's 1983 Private Sector Task Force on the Motor Vehicle and Parts Industries named a domestic content requirement as the cornerstone of its recommendations to the federal government. The task force proposal effectively would broaden the Auto Pact content stipulations to apply to Japanese and other foreign vehicle producers who market cars in Canada.

U.S. AUTOMOTIVE PARTS TRADE POLICY

In the U.S., APAA has worked with the Department of Commerce (DOC) and the Office of U.S. Trade Representative (USTR) to begin development of our own program for the aftermarket. While we have joined Administration ranks in denouncing domestic content as bad economics that would threaten both short-term and long-term industry vitality, we still hope to gain Congressional enactment of the Automotive Products Export Council (APEC)-developed Parts Purchase Incentive Plan, tailored after the Canadian duty remission program. (Copies of our Plan legislative draft and analysis are attached as Appendices C and D).

Our Plan would be the lever -- an economic incentive -- to pry open Japan's closed OEM's and spur U.S. export sales. During last year's Tokyo Motor Show, Patrick Lavelle, then president of the Automotive Parts Manufacturers Association of Canada, told The Japan Times that their strategy shifted gears because export efforts "were doomed to failure." The reason cited: Japanese auto makers' close ties to their supplier families barred market entry. We will not concede these institutional barriers as insurmountable. Rather, let us put our Plan to work, and we will press those Japanese car companies' self-interest buttons to lift those barriers.

We believe the Plan would create American jobs, equip vehicle imports with American content and set off a chain reaction of

growth in aftermarket sales. The incentive to buy would be a dollar of credit against vehicle duty for each dollar of American product purchased by foreign based auto makers. The credit would be available against an auto maker's shipments to the U.S., regardless of whether the incoming cars bear the American content, opening new markets to our exports. Current "American Goods Returned" law follows the Canadian program's deduction approach, netting out U.S. content before applying the duty. But, unlike Canada, where a 10 percent automobile duty makes for significant savings, the U.S. automobile duty is only 2.5 percent. Instead of the incentive offered by current law, our credit approach puts a real economic incentive in front of the Japanese.

The linchpin of the U.S. parts program is the industry/government Japan Initiative to crack Japanese car company-controlled markets. Through the exchange of buying and selling missions, begun with the Japanese government sponsored parts purchasing mission to the 1985 APAA Show, and the creation of a bilateral Trade Facilitation Committee (TFC) to help smooth the rough edges in private contract talks, we have a program to build American supplier opportunities wherever Japan builds and sells cars. This market opening campaign is on the move today, literally, with 12 American suppliers concluding a week long executive level selling mission to Japan's nine OEM's. The first TFC meeting takes place today, chaired by high level negotiators from DOC and the Ministry of International Trade and Industry (MITI).

Having looked briefly at the policy objectives of Canada and the U.S., we find a fundamental difference. In summary, it is Canadian industry support of domestic content versus the U.S. industry/government market opening initiative, preferably assisted by the leverage that our Parts Purchase Incentive Plan would provide. The bottom line is the same, however, as both industries work feverishly to develop new customers -- namely Japanese car makers -- to supplant the sagging parts demand of traditional Big Four customers.

While we have no quarrel with healthy competition, we must object to the playing field being tipped to Canada's advantage. We cite the well-reported Canadian government bounties to lure new Japanese supplier investment to Canada. In fact, it was with Canadian government blessings that the newly founded Pacific Automotive Co-operation, Inc. embarked in 1984 on a zealous mission to stimulate both the Canadian and Japanese parts industries.

Staffed by Japanese auto executives and directed by officials of the Japanese Automobile Manufacturers Association (JAMA) and the Japan Auto Parts Industries Association (JAPIA), PAC is waging an ambitious campaign to entice Japanese suppliers to take some of the sting out of U.S. political frustration with the mounting parts trade deficit, by entering the U.S. through the back door.

What makes all of this even more threatening is PAC's push for Japanese suppliers to use Canada as a springboard to launch

duty-free original equipment exports into both domestic and Japanese car assembly plants in the U.S. This duty-free treatment is guaranteed by the Automotive Products Trade Act of 1965 (APTA) and the special Auto Pact between the U.S. and Canada authorized by that Act. Briefly, it permits most motor vehicles and OE parts to cross between nations duty-free.

While this is not the forum to discuss the Auto Pact, a review of these recent Pact developments helps underscore our alarm with unintended third parties benefiting by the program, and forewarns of similar exploitaion of a free trade aftermarket agreement. I have attached as Appendix E a PAC press release that highlights their selling pitch including the very salient point of duty-free treatment. Perhaps this fits the letter of the Auto Pact, but it clearly does not conform with the spirit. Moreover, it seriously undermines our market opening initiatives. Yet, if we can find a silver lining in this new Canadian strategy, it is the red flag it raises against exposing our domestic aftermarket to the same danger.

But, Japan is reacting to political pressure from both countries. Its chief response is to move more of its vehicle production to North America. Reluctant to choose from U.S. suppliers who are capable of supplying the entire gamut of Japanese auto manufacturing needs, Japanese car makers prefer to establish their own supplier families nearby. Faced with U.S. industry resistance to a network of new plants setting up next door to underutilized

American plants, Japanese firms are finding PAC's sales pitch most appealing. Not only will Canada welcome their suppliers, but the Japanese can locate close enough to the U.S. assembly plants for just-in-time delivery. All is done duty free and in full compliance with the Auto Pact.

Obviously, Canada offers advantages beyond a receptive climate. The strong U.S. dollar, that has hampered our firms' access to foreign markets, becomes a potent club against us as our chief trading partner offers a built in 25 percent plus discount on every component and car shipped to the U.S.

Add to this the lure of government grants and lower operating costs in the key areas of wages, utilities, and materials, and it is easy to see that our parts trade deficit with Canada could mount swiftly as Japanese suppliers exploit the Auto Pact to sidestep U.S. political pressures. Even before any Japanese, Koreans or other transplants take appreciable advantage of the favored treatment, the bilateral trade figures are trending against us. As the statistical table, attached as Appendix F shows, the U.S.-Canada parts trade surplus has shrunk from $2.2 billion in 1981 to $1.0 billion in 1984 and to only $500 million last year. And, our deficit in car trade has pyramided from $1.1 billion in 1981 to $5.5 billion in 1985.

It is imperative that we not aid this onslaught by making our aftermarket industry more vulnerable. Even with the status quo, we

know that Japanese suppliers to American OE markets will enter our aftermarket with the same competitive advantages cited above. Moreover, their OE production base will help lower the cost of the extra units produced for the U.S. aftermarket, making their price competitiveness even more formidable.

In conclusion, Mr. Chairman, APAA beleives that our minimal aftermarket tariffs must remain intact to absorb some of the shock of the price advantage that the exchange rate alone guarantees. Elimination of these tariffs could set off a chain reaction of declining competitiveness at home, lower output, job losses and more off-shore sourcing. Moreover, our industry/government Japan market opening campaign will be undermined if we allow a Japanese sleight of hand that cuts their parts surplus with the U.S. by eating into our already reduced parts trade surplus with Canada.

Our views are well known to Ambassador Yeutter. But, the most important voices needed now are yours, Mr. Chairman, and those of the committee members, directing our negotiating team to exclude automotive aftermarket trade from the agreement, and to focus instead on sectors where benefits would be mutual.

The U.S. and Canadian auto making and supplier industries are so integrated that our General Agreement on Tariffs and Trade (GATT) partners have for 21 years permitted us to enjoy bilateral duty privileges which are denied them. As common as is our evolution so

is the threat posed by foreign firms and governments that deny the market access available in North America. Where our countries develop policies for responding to that threat, we urge that the U.S. adopt the best of Canada's program, especially through prompt Congressional enactment of our Parts Purchase Incentive Plan. And, we must oppose policies inimical to American supplier industry interests. Once we have stopped the immediate threat posed to our aftermarket by the free trade proposal, we can move to explore the balance of our automotive trade relationship and determine what, if any, common interests we wish to pursue.

We appreciate this opportunity to share our views and would be happy to answer any questions you may have.

APPENDIX G

# INCREASING U.S. AUTO PARTS EXPORTS

## THE PARTS PURCHASE INCENTIVE PLAN

## A RATIONALE

5100 Forbes Blvd.

APA
AUTOMOTIVE PARTS & ACCESSORIES ASSOCIATION

Lanham, Maryland 20706

In 1960, the U.S. produced over 52% of the cars made worldwide; Japan produced only 1.3%. In 1970, the U.S. share had fallen to 29%; Japan was up to 14%. By 1980, Japan had passed us as the frontrunner of car producing nations with over 24% of the world market; we were down to under 22%.

The unnatural growth in productivity and price competitiveness of the Japanese auto parts industry is not simply a function of optimal management practices and production techniques. The Japanese vehicle manufacturers have a long established family relationship with most of their parts suppliers consisting of interlocking directorships and equity positions, under the aegis of the Central Bank's traditional practice of selective access to credit. This has resulted in a highly nationalistic, in-bred, protected and virtually impenetrable vehicle manufacturer-supplier environment in that country.

With the title of the world's #1 auto producer under their belt, the Japanese now have set their sights on usurping our position as the world's leading parts producer. It plans to reach that goal in the 1980's. In a 1980 report by its Long Term Credit Bank, Japan boasts that "export ratios of most of the independent auto component companies will rise, and some of them are setting up production abroad," in the United States, it should be added.

Decades of protectionism, such as amazingly low tax rates, enormous asset depreciation and deferred taxes for costs of developing new export markets, kept competitors at sea. It has paid off for the Japanese. As Commerce Secretary Baldrige puts it: the Japanese protected their industry from infancy through a strong growth period, it made them strong with subsidies and then turned industry loose on the world and called it free trade.

U.S. parts suppliers face a depressed home market, the potential loss of 400,000 industry jobs forever, and sharp rises in foreign made vehicles here and elsewhere in the world. Exporting is essential. We must export to assure the economies of scale that keep our costs and prices internationally competitive.

The toll for being locked out of the aftermarket for Japanese vehicles in Japan, here and in third countries has risen considerably in recent years as the worldwide car population fills increasingly with Japanese vehicles. In 1960, Japan exported 4.2% (7,000 units) of their domestic vehicle production. In 1985 the Japanese exported over 58% or nearly 4.5 million vehicles. By contrast we export under 8% of our domestic production. Over 50% of the Japanese cars exported in 1985 ended up within the borders of the U.S. Less than 1% of our U.S. cars exports were able to penetrate Japan's home market.

The U.S. Government has attempted and failed to promote U.S. made auto parts through negotiations and sponsorship of industry trade missions. At the time of the last trade mission to the U.S. in

September 1980, both governments set a goal of $300 million in purchases by the Japanese auto manufacturers with significant gains thereafter. It is an understatement to say that the Japanese fell short of that goal. They purchased only a paltry $119 million in parts in 1981, and a mere $128 million in 1982, particularly unsatisfactory in light of our $1.7 billion parts trade deficit with Japan. And by 1985 Japan's parts exports to the U.S. surged past the $4 billion mark, while the value of U.S. shipments to Japan only inched ahead to the $190 million level.

We contend, and the Commerce Department backs us up, that this staggering imbalance is not caused by the lack of quality or price competitiveness on the part of U.S. made products. Nor can the root of the problem be attributed to a strong U.S. dollar, high interest rates or U.S. apathy in developing the Japanese market.

The fundamental cause is Japan's longstanding policies and practices which encourage exports and discriminate against imports.

In spite of the recent demise of the Japanese import duty, the delivered prices of foreign vehicles in Japan remains significantly high. This is due to the import bias which tinges the Japanese commodity taxes; a tax which exempts exports but is imposed on imports. Then there are the certification requirements, local distribution methods, and road taxes which discriminate against the larger engines of U.S. models.

These obstacles combined with a panoply of other non-tariff barriers against U.S. origin parts -- including the withholding of parts specifications developed behind doors closed to us; an unwieldy parts approval system; and that uniquely strong alliance between vehicle and parts markers -- generally have conspired to prevent outside competitors from penetrating the walls of their safe and secure world.

Failure to crack the original equipment market for Japanese vehicles also precludes us from the highly lucrative replacement parts market.

We want to become recognized as authorized suppliers from which dealers and buyers of Japanese vehicles around the world can confidently purchase replacement parts.

The time to act is now...before the aftermarket goes the way of the U.S. electronics industry, another once strong U.S. industry fallen victim to Japanese domination through unfair trade policies.

Each member of the Automotive Products Export Council (APEC) is painfully aware of the injury our industry has suffered. Japan, in particular, is responsible for this injury. Unlike the U.S., it belongs to the "one way trade" school of thought. While the Japanese inundate our markets, they will not afford us access to their huge market.

We must stop the injury to our industry from becoming chronic. The times call for extraordinary and immediate steps.

To do so, we propose free trade incentives rather than trade restrictions. Unlike punitive measures undertaken by other nations, our plan would offer reward. Rather than repelling a nation's goods, we would make two way trade mutually beneficial. Had our Parts Purchase Incentive Plan been in effect in 1985, foreign vehicle manufacturers could have saved nearly $1.6 billion on their exports to the U.S. They could have done so by purchasing an equivalent amount of U.S. made parts and accessories.

The Parts Purchase Incentive Plan we propose is a variation on a familiar theme of duty remission -- already on the books. Item 807.00 of the Tariff Schedule gives firms in foreign nations some incentives to purchase U.S. components for assembly into finished goods for sale in the U.S.

For example, a vehicle manufacturer in a foreign country may purchase U.S. automotive components for assembly into finished vehicles. If those automobiles or light trucks are sold in the U.S., the value of U.S. content added may be deducted from the total value. This would give the value for duty. Since the amount to be charged for duty is lower, the duty paid would be lower.

The exhibit shows motor vehicle imports under Item 807.00 from Japan.

1984 MOTOR VEHICLE IMPORTS (ITEM 807.00)

(in thousands of dollars)

| COUNTRY | TOTAL VALUE ($) | DUTY FREE VALUE | DUTIABLE VALUE |
|---|---|---|---|
| JAPAN | $7,913,794 | $ 52,557 | $7,861,237 |

In 1984 vehicle manufacturers in Japan which imported components from the U.S. and made use of Item 807.00 duty remission saved $1.4 million in duty. The savings came from assessing the duty on a smaller amount, having first deducted the value of the U.S. content.

Item (A) shows how the current law works. An average $6,400 Japanese car import with no U.S. content lands in the U.S. The 2.6% ad valorem duty rate would apply to the $6,400 total value. The $166 duty would make the landed cost of the vehicle $6,566. If the vehicle manufacturer has used $300 worth of U.S. components, the $300 would be deducted from the $6,400 total value. This would give the dutiable value of $6,100. When the 2.6% duty rate applies to the $6,100, the duty owed is $159. The manufacturer has cut $7.00 from the duty...hardly a strong incentive to purchase U.S. goods.

Example (A)

Current Law - Cars

| | U.S. Parts Purchases $ | Ad Valorem Value $ | Duty % | Duty $ | Landed Cost | Value of Deduction $ |
|---|---|---|---|---|---|---|
| $6400 | -0- | 6400 | 2.6 | 166 | 6566 | -0- |
| | 300 | 6100 | 2.6 | 159.00 | 6559 | 7 |
| Car | 1000 | 5400 | 2.6 | 140.00 | 6540 | 26 |

By purchasing $1000 in U.S. automotive products, the landed cost would be $5,400. By using U.S. content for more than 15% of the vehicle, the manufacturer would save $26 in duty.

Example (AA) shows the same type of comparison for automobile trucks. With no U.S. content, the 25% duty rate applied to the average automobile truck's value of $4288 adds $1072 to the vehicle's landed cost. Purchases of $600 would reduce the dutiable value from $4288 to $3688. Applying the 25% duty rate, the duty would be $922. This makes the vehicle landed cost $5210. The manufacturer has saved $150 by purchasing $600 of U.S. automotive products.

Example (AA)

Current Law - Automobile Trucks

| | U.S. Parts Purchases | Ad Valorem Value $ | Duty % | Duty $ | Landed Cost | Value of Deduction $ |
|---|---|---|---|---|---|---|
| $4288 | -0- | 4288 | 25.0 | 1072 | 5360 | -0- |
| Light | 300 | 3988 | 25.0 | 997 | 5285 | 75 |
| Truck | 600 | 3688 | 25.0 | 922 | 5210 | 150 |

When the duties are high, as in the case of automobile trucks, vehicle manufacturers get much more bang for the buck out of the Item 807.00 remission. However, the low auto duty rate, scheduled to go lower, offers far less incentive to purchase U.S. automotive products. This is not the only important limitation of the current law.

It also requires the parts to return on vehicles to the U.S., causing American parts and accessories manufacturers to lose what otherwise could be valuable replacement parts sales for U.S. products destined for foreign markets.

Despite the limited incentive for purchasing car components under Item 807.00, the exhibit we looked at earlier shows a high level of interest by vehicle manufacturers in Japan. That level of interest given a limited program offers some exciting prospects for use of our Plan.

Under the Plan, the credit incentive would be much more generous. One important improvement to the law would spell the difference. Foreign-based auto makers could receive a credit against the vehicle duty owed -- a dollar of credit for each dollar of U.S. product purchased. This credit approach would cut the tax, or duty, itself, rather than cutting the amount to be taxed as does the current deduction approach -- a greatly enhanced incentive to buy American.

Example B shows a manufacturer using $100 in U.S. automotive products. The $6400 value of the car would have the full duty of 2.6% assessed. The $166 in duty then would be reduced by the $100 of products purchased. This leaves only $66 in duty. The following lines show that the amount of dutiable value does not change, as it does under current law. Rather, when $300 in purchases have been made, the $166 duty is eliminated. The car lands duty free. Of course, the maximum credit allowed is the amount of duty that normally would be due. For a $6400 car, regardless of the amount of product purchased over $166, the credit would never exceed $166.

Example (B)

Parts Purchase Incentive Plan - Cars

| | U.S. Parts Purchases $ | Ad Valorem Value $ | Duty % | Duty $ | Landed Cost | Value of Credit $ |
|---|---|---|---|---|---|---|
| $6400 Car | $100 | $6400 | 2.6 | 166 | 6566 | 100 |
| | 300 | 6400 | 2.6 | 166 | 6400 | 166 |
| | 600 | 6400 | 2.6 | 166 | 6400 | 166 |

Example (BB) shows an average automobile truck import with a total value of $4288. The 25% duty is applied in each instance, and the duty owed is always $1072. The credits against the duty owed are shown for the various purchase levels of $100, $300 and $600. The maximum credit permitted is $1072.

Example (BB)

Parts Purchase Incentive Plan - Automobile Trucks

| | U.S. Parts Purchases $ | Ad Valorem Value $ | Duty % | Duty $ | Landed Cost | Value of Credit $ |
|---|---|---|---|---|---|---|
| $4288 | 100 | 4288 | 25.0 | 1072 | 5260 | 100 |
| Automobile | 300 | 4288 | 25.0 | 1072 | 5060 | 300 |
| Truck | 600 | 4288 | 25.0 | 1072 | 4760 | 600 |

COMPARISON OF DUTY OWED

| | Present Law | Parts Purchase Incentive Plan |
|---|---|---|
| Landed value of car | $6400 | $6400 |
| 2.6% duty when car has no U.S. parts | 166 | 166 |
| Duty charged if $100 in U.S. parts were purchased | 163.80 | 66 |
| Duty saved by manufacturer | 2.20 | 100 |

Under the Plan, a vehicle manufacturer in a foreign country would purchase U.S. parts and accessories, and have them shipped to one of its foreign plants. The Secretary of Commerce would devise the means to monitor the purchase orders and exports. The manufacturer then exports cars and/or automobile trucks to the U.S. When they land, the duty rates are applied, 2.6% for cars and 25% for automobile trucks.

In another major improvement to current law, the Plan would base the auto maker's duty credits on the total amount of products purchased, with no stricture that the parts reenter the U.S. Ideally, the car makers would install the products or stock them as replacements for use anywhere in the world -- opening the highly lucrative global aftermarket. In fact, even if none of the parts and accessories reenter the U.S., the credit would not be jeopardized.

1985 MAXIMUM PARTS PURCHASE INCENTIVE PLAN CREDITS

| IMPORT TYPE | UNITS | AVERAGE MAXIMUM CREDIT ($) | TOTAL MAXIMUM CREDIT ($) |
|---|---|---|---|
| Japanese Cars | 2,527,479 | 166 | 419,561,514 |
| Japanese Automobile Trucks | 804,006 | 1,072 | 861,894,432 |
| All other Cars | 722,659 | 327 | 236,309,490 |
| All other Automobile Trucks | 31,312 | 1,948 | 61,000,000 |
| TOTAL MAXIMUM CREDIT (ALL SOURCES) | | | 1,578,765,436 |

Of all the advantages that recommend this plan, none is greater than the volume of sales and jobs it would generate for our suppliers. Manufacturers of cars and light trucks in foreign countries could land their vehicles in the U.S. duty free, by using an average of $161 in automotive products per $6400 car and $1072 in products per $4288 automobile trucks. They would save $1.6 billion in duty, and that translates into $1.6 billion in U.S. automotive product exports.

Additional sales of $1.6 billion would more than pay for the Plan through revenue feedback from higher corporate and personal tax receipts and transfer payment savings.

Commerce Department calculations cite a cost to the Treasury of $1 billion in lost revenues and transfer payments for every 30,000 unemployed workers. Secretary Baldrige has also cited statistics that every $1 billion in manufactured exports yield 33,000 manufacturing jobs. Hence, our Plan could have generated 52,800 jobs in original equipment supply alone. The benefit to the Treasury from those 52,800 workers would total $1.76 billion -- more than enough to offset the cost of the program.

Let's also look at the income 52,800 jobs can add to the economy. In 1985, a U.S. automotive supplier industry worker earned an average of $12.82 an hour in wages. Fifty-two thousand eight hundred workers earning $513 a week would add more than $1.4 billion in earnings. The Transportation System Center estimates that a dollar of lost purchasing power leads to a two-dollar decline in local income. Use of our program to stimulate $1.6 billion in exports could reverse that bleak trend for 52,800 workers and their communities -- adding more than $2.8 billion to local income. This means 52,800 workers, who otherwise would curb their purchases and draw down their savings, once more could be consumers and savers.

A BILL APPENDIX H

To amend the Tariff Schedules of the United States to create a passenger automobile and automobile truck part and accessory duty remission item classification. Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. FINDINGS; PURPOSE.

(a) FINDINGS. - The Congress finds that -

(1) in recent years the United States has been inundated with importations of foreign-built passenger automobiles and automobile trucks,

(2) these importations have been stimulated in large part by the low duty rates imposed on passenger automobiles by the United States,

(3) as a result of the large volume of importations of foreign-built passenger automobiles and automobile trucks, the United States automotive industry has suffered immeasurable economic injury,

(4) the economic injury which has occurred has not been limited to the domestic automotive industry but has also been felt by domestic suppliers of automotive parts and accessories,

(5) unusual and immediate measures are required to reverse the economic injury to the United States automotive industry and to prevent further injury.

(b) PURPOSE. - It is the purpose of this Act to provide an incentive for motor vehicle manufacturers in foreign countries to purchase United States automotive components by establishing a passenger automobile and automobile truck part and accessory duty remission item classification under the Tariff Schedules of the United States which would allow for the remission of duties on imported passenger automobiles and automobile trucks under certain circumstances.

SECTION 2. MOTOR VEHICLE PART AND ACCESSORY REMISSION CLASSIFICATION.

(a) IN GENERAL. - Subpart B of Part 1 of Schedule 8 of the Tariff Schedules of the United States (19 United States Code § 1202) is amended by inserting the following new item:

ITEM 807.50

"Motor vehicles classified under Item 692.10 and Item 692.02 of the Tariff Schedules, manufactured in a foreign country which have installed thereon parts and accessories produced in the United States which (a) were exported in condition ready for assembly without further fabrication, (b) have not lost their physical identity in such articles by change in form, shape or otherwise, and (c) have not been advanced in value or improved in condition abroad except by being assembled and except by operations incidental to the assembly process such as cleaning, lubricating, and painting. Providing that such United States origin parts and accessories have been exported from the United States, the imported motor vehicles may contain motor vehicle parts and accessories equivalent to and in lieu of the United States motor vehicle parts and accessories exported from the United States."

(b) DUTY RATE. - The duty ascribed to Item 807.50 shall be as follows:

"A duty upon the full value of the imported motor vehicle, which duty is reduced by the cost or value of such products of the United States, even though products in lieu thereof may have been installed on the motor vehicle. (See headnote 3 of this subpart.)"

SECTION 3. HEADNOTE REVISION.

(a) IN GENERAL. - Headnote 3 of Subpart B of Part 1 of Schedule 8 of the Tariff Schedules of the United States (19 United States Code § 1202) is amended by altering the title of the headnote from "Articles assembled abroad with components produced in the United States" to "Articles assembled abroad with components produced in the United States or components in lieu thereof."

(b) INCLUSION OF ITEM 807.50. - Headnote 3 shall be amended to apply to Item 807.50 as well as Item 807.00.

(c) REVISION OF HEADNOTE 3(b). - Headnote 3(b) is amended by redesignating such headnote as 3(c) and by amending the first sentence by inserting at the beginning thereof the clause -- "For purposes of Item 807.00."

(d) HEADNOTE 3(b) REPLACEMENT. - Subpart B Headnotes of Part 1 of Schedule 8 of the Tariff Schedules is amended by inserting the following new Headnote 3(b).

"For purposes of Item 807.50, the value of the products in lieu of products of the United States assembled into the imported articles shall be deemed the same as the value of products of the United States as referenced in the above sections (a), (i) and (ii)."

(e) HEADNOTE 3(d). - Subpart B Headnotes of Part 1 of Schedule 8 of the Tariff Schedules is amended by inserting the following new Headnote 3(d).

"For purposes of Item 807.50, the duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subpart. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced by an amount equal to the cost or value of such products of the United States installed on the imported article. Should products in lieu of products of the United States be installed on the imported article their cost or value shall be deemed the same as the cost or value of the products of the United States for which they are substituted. Under no circumstances will a credit be granted for the value of products in excess of the duty due."

(f) HEADNOTE 3(e). - Subpart B Headnotes of Part 1 of Schedule 8 of the Tariff Schedules is amended by inserting the following new Headnote 3(e).

"For purposes of Item 807.50, all parties who meet the general requirements and applicable regulations of Item 807.50 shall receive the duty treatment specified therein during 1983. Thereafter, any party requesting Item 807.50 treatment during any given year must for the immediate prior year (first base year) meet the following criteria:

The requesting party's percentage, as calculated in United States dollars, of its purchases of United States origin passenger

automobile and/or automobile truck parts and accessories to its exports of passenger automobiles and/or automobile trucks to the United States must either increase or remain constant over the previous year (second base year).

In the event there is any decrease in dollar volume of purchases of United States origin parts and accessories in any given year by the requesting party, such party will be ineligible to receive Item 807.50 treatment for the immediate subsequent year. This ineligibility shall apply even though there may have existed a corresponding or greater decrease in exports of passenger automobiles and/or automobile trucks to the United States resulting in an overall percentage increase or percentage constant in purchases of United States origin parts and accessories to exports of passenger automobiles and/or automobile trucks to the United States.

Once a decrease in dollar volume of purchases of United States origin parts and accessories has occurred, the requesting party will again be eligible to receive Item 807.50 treatment once the previous high in dollar volume of purchases of United States origin parts and accessories has been reached or surpassed. For purposes of such calculations, the previous high in purchases of United States origin parts and accessories shall remain the base figure until it has been surpassed. The base figure for exports shall be the actual figure for the base year in use."

SECTION 4. AUTHORITY TO PROMULGATE REGULATIONS.

The Secretary of the Treasury is expressly authorized to promulgate and implement regulations for the regulation of the foregoing legislation.

SECTION 5. EFFECTIVE DATE.

The amendments made by Sections 2(a) and (b), Sections 3(a), (b), (c), (d), (e) and (f) and Section 4 shall apply with respect to articles entered or withdrawn from warehouse for consumption on or after January 1, 1983.

SECTION 6. STUDY TO DETERMINE WAYS TO INCREASE THE USE OF AMERICAN-MADE NEW AND REPLACEMENT PARTS BY FOREIGN MANUFACTURERS AND OF DISCRIMINATORY PRACTICES AFFECTING DOMESTIC PRODUCTION OF MOTOR VEHICLE PARTS

Within one year after the date of the enactment of this act, the Secretary of Commerce shall undertake an investigation and submit to Congress a written report determining how to increase the use of American-made new and replacement motor vehicle parts by foreign manufacturers. The investigation and report shall also encompass the policies and practices that are used by vehicle manufacturers to cause United States motor vehicle dealers to choose foreign-made replacement parts for motor vehicles rather than domestically produced parts. Such report shall include but not be limited to recommended administrative or legislative action that the Secretary considers appropriate to increase the use of American-made new and replacement motor vehicle parts by foreign manufacturers and to assure that domestic producers of replacement parts are accorded fair access to the United States market for such parts.

APPENDIX I

## PROPOSED LEGISLATION TO GRANT RELIEF TO THE UNITED STATES AUTOMOTIVE INDUSTRY BY CREATING AN INCENTIVE FOR VEHICLE MANUFACTURERS IN FOREIGN COUNTRIES TO PURCHASE UNITED STATES ORIGIN AUTOMOTIVE COMPONENTS

### A. Introduction And Proposal Outline

Foreign-made passenger automobiles and automobile trucks have inundated United States' markets in recent years. Our low duty rates on these items in large part stimulated the imports. Schedule 6 of the Tariff Schedules of the United States sets no quota restrictions and assesses a low duty rate of 2.8% ad valorem on passenger automobiles. Foreign vehicle manufacturers place great weight on our low duty rates, evidenced by the negative reaction to a reclassification raising the duty on automobile truck cab and chassis from 4% ad valorem to 25% ad valorem. Our duty rates contrast starkly with those of our major trading partners, such as France, Italy, Germany, The United Kingdom and Canada which impose duty rates on automobiles as high as 14% ad valorem. Many of these nations also restrict the number of vehicle imports.

The flood of foreign-built passenger automobile and automobile truck imports has caused the United States automotive industry immeasurable economic harm. The injury has devastating effects that reach well beyond vehicle manufacturers to the thousands of original equipment and replacement parts suppliers. The damage is rending the entire United States economy. The injury must not develop into a chronic condition. We must take extradordinary and immediate steps to halt that deterioration.

Our plan offers foreign vehicle manufacturers the incentive to save hundreds of millions of dollars by purchasing United States made automotive products. The plan would create a new passenger automobile and automobile truck component duty remission item classification under the Tariff Schedules of the United States. This is a novel approach to the duty remission provisions now in the law. The current duty remission provisions permit the value of United States made parts to be deducted from the value of the vehicles upon which they enter the United States, before the duty is applied.

The effective duty reductions have afforded little incentive for purchasing products made in the United States and, since the parts must return on vehicle imports to this country, the current provision foregoes the prospect of installing United States made products on vehicle shipments to third markets. Our plan addresses both limitations. First, it provides a credit that could reduce the amount of duty on a vehicle import one dollar for every dollar of United States product which the manufacturer purchases. While current law cuts the amount to be taxed, our plan cuts the tax itself. Second, our plan opens the door to valuable aftermarket sales opportunities worldwide, since installing United States origin parts on vehicles bound for other countries does not jeopardize the credit.

The first stage in the voluntary plan is for the vehicle manufacturers in a foreign country to purchase United States origin parts and accessories. The Secretary of the

Treasury will prescribe regulations to monitor the purchase orders and exports.

In the second stage, when the vehicle manufacturer exports to the United States, Customs officials will calculate the amount of duty on the full value of the automobiles and automobile trucks at the rate of 2.8% ad valorem and 25% ad valorem, respectively. The duty then will be reduced by an amount equal to the cost or value of United States origin parts and accessories purchased if either such parts and accessories or equivalent parts and accessories are installed on the motor vehicle.

Vehicle manufacturers in foreign countries who participate in the voluntary program will pay effective duty rates well below 2.8% ad valorem and 25% ad valorem. In fact, there is incentive for them to purchase enough United States products to land their vehicles in the United States duty free. However, under no circumstances will a credit for the value of parts be granted in excess of the duty otherwise due.

The proposed program would be available to all foreign-based motor vehicles manufacturers during its first year of operation. Thereafter, the program would only be available to foreign-based motor vehicle manufacturers who for the prior year maintained or increased the percentage as calculated in United States dollars, of their purchases of United States origin automotive parts and accessories to their exports of motor vehicles to the United States. In the event there was a decrease in dollar volume of purchases of United States origin parts and

accessories in any given year, the foreign-based manufacturer would be ineligible to receive the duty credits for the immediate subsequent year. This ineligibility would apply even though there may have existed a corresponding or greater decrease in exports resulting in an overall percentage increase or percentage constant in purchases of United States origin automotive parts and accessories to exports of motor vehicles to the United States. Once a decrease in dollar volume of purchases of United States origin parts and accessories has occurred, the foreign-based manufacturer would again be eligible to participate in the program once the previous high in purchases of United States origin parts and accessories has been reached or surpassed.

The program will be totally voluntary and the Secretary of the Treasury will prescribe regulations for its implementation and functioning.

B. Section Analysis of Proposed Legislation

Section 1 of the proposed legislation outlines the findings of Congress and purposes of the Act.

Section 2 of the proposed legislation provides for a new item classification in the Tariff Schedules of the United States. This item classification could effectively lower the duty rates provided by the Tariff Schedules. It reduces the amount of duty due by an amount equal to the value of the United States origin parts and accessories which the vehicle manufacturer purchases and may install on motor vehicles.

The new item classification imposes a duty upon the full value of the passenger automobile or automobile truck. That duty is then reduced dollar for dollar by the cost or value of United States products purchased, even though the manufacturer may install non-United States made equivalent products on its exports to the United States. However, a credit will not be granted for the value of purchases of United States origin products in excess of the actual duty due.

Section 3 of the proposed legislation makes the necessary amendments to the applicable headnotes in order that the value and cost of the United States parts and accessories or parts and accessories in lieu thereof can be determined for duty purposes. It further provides that after the initial year of the program, eligibility for the program will be directly linked to the dollar volume of automotive parts and accessories purchases as they relate to the volume of motor vehicle imports. Once the amendments are enacted, the revised headnotes will read as follows:

> 3. Articles assembled abroad with components produced in the United States or components in lieu thereof. -- The following provisions apply only to Items 807.00 and 807.50.
>
> (a) The value of the products of the United States assembled into the imported article shall be --
>
> (i) the cost of such products at the time of the last purchase; or
>
> (ii) if no charge is made, the value of such products at the time of the shipment for exportation,

as set out in the invoice and entry papers; except that, if the appraiser concludes that the amount so set out does not represent

a reasonable cost or value, then the value of such products shall be determined in accordance with section 402 of this Act.

(b) For purposes of Item 807.50, the value of the products in lieu of products of the United States assembled into the imported article shall be deemed the same as the value of products of the United States as referenced in the above sections (a), (i) and (ii).

(c) For purposes of Item 807.00, the duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subpart. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced in such proportion as the cost or value of such products of the United States bears to the full value of the imported article.

(d) For purposes of Item 807.50, the duty on the imported article shall be at the rate which would apply to the imported article itself, as an entirety without constructive separation of its components, in its condition as imported if it were not within the purview of this subpart. If the imported article is subject to a specific or compound rate of duty, the total duties shall be reduced by an amount equal to the cost or value of such products of the United States installed on the imported article. Should products in lieu of products of the United States be installed on the imported article their cost or value shall be deemed the same as the cost or value of the products of the United States for which they are substituted. Under no circumstances will a credit be granted for the value of products in excess of the duty due.

(e) For purposes of Item 807.50, all parties who meet the general requirements and applicable regulations of Item 807.50 shall receive the duty treatment specified therein during 1983. Thereafter, any party requesting Item 807.50 treatment during any given year must for the immediate prior year (first base year) meet the following criteria:

> The requesting party's percentage, as calculated in United States dollars, of its purchases of United States origin passenger automobile and/or automobile truck parts and accessories to its exports of passenger automobiles and/or automobile trucks to the United States must either increase or remain constant over the previous year (second base year).

In the event there is any decrease in dollar volume of purchases of United States origin parts and accessories in any given year by the requesting party, such party will be ineligible

to receive Item 807.50 treatment for the immediate subsequent year. This ineligibility shall apply even though there may have existed a corresponding or greater decrease in exports of passenger automobiles and/or automobile trucks to the United States resulting in an overall percentage increase or percentage constant in purchases of United States origin parts and accessories to exports of passenger automobiles and/or automobile trucks to the United States.

Once a decrease in dollar volume of purchases of United States origin parts and accessories has occurred, the requesting party will again be eligible to receive Item 807.50 treatment once the previous high in dollar volume of purchases of United States origin parts and accessories has been reached or surpassed. For purposes of such calculations, the previous high in purchases of United States origin parts and accessories shall remain the base figure until it has been surpassed. The base figure for exports shall be the actual figure for the base year in use.

Section 4 of the proposed legislation authorizes the Secretary of the Treasury to promulgate and implement regulations for the regulation of the program.

Section 5 of the proposed legislation establishes the effective date of the Act to be January 1, 1983.

Section 6 of the proposed legislation directs the Secretary of Commerce to undertake a study to determine ways to increase the use of American-made new and replacement motor vehicle parts by foreign manufacturers. The study is also to encompass the policies and practices that are used by vehicle manufacturers to cause United States motor vehicle dealers to choose foreign-made replacement parts for motor vehicles rather than domestically produced parts. A report of the study is to be submitted to Congress within one year of the date of enactment of the Act. It is to contain recommended administrative and legislative action to increase the use of American-made new and

replacement motor vehicle parts by foreign manufacturers and to assure that domestic producers of replacement parts are accorded fair access to the United States market for such parts.

APPENDIX J

## CHAPTER F-10

An Act to provide for the financial administration of the Government of Canada, the audit of the public accounts and the financial control of Crown corporations

## CHAPITRE F-10

Loi pourvoyant à l'administration financière du gouvernement du Canada, à la vérification des comptes publics et au contrôle financier des corporations de la Couronne

SHORT TITLE

Short title

**1.** This Act may be cited as the *Financial Administration Act*. R.S., c. 116, s. 1.

TITRE ABRÉGÉ

**1.** La présente loi peut être citée sous le titre: *Loi sur l'administration financière*. S.R., c. 116, art. 1.

Titre abrégé

INTERPRETATION

Definitions

**2.** In this Act

"appropriate Minister" means,

(a) with respect to a department mentioned in paragraph (a) of the definition "department", the Minister presiding over the department,

(b) with respect to any other department, the Minister designated by the Governor in Council as the appropriate Minister,

(c) with respect to the Senate and the House of Commons, the respective Speaker, and with respect to the Library of Parliament, the Speakers of the Senate and the House of Commons, and

(d) with respect to a corporation to which Part VIII applies, the Minister designated by the Governor in Council as the appropriate Minister;

"appropriation" means any authority of Parliament to pay money out of the Consolidated Revenue Fund;

"authorized agent" means any person authorized by the Minister to accept subscriptions for or make sales of securities;

"Consolidated Revenue Fund" means the aggregate of all public moneys that are on

INTERPRÉTATION

Définitions

**2.** Dans la présente loi

«agent autorisé» signifie toute personne autorisée par le Ministre à accepter des souscriptions à des valeurs ou à en vendre;

«agent financier» signifie la Banque du Canada et un agent financier nommé aux termes de la Partie IV;

«année financière» désigne la période commençant le premier avril d'une année et se terminant le trente et un mars de l'année suivante;

«biens publics» désigne tous les biens, autres que des deniers, appartenant à Sa Majesté du chef du Canada;

«crédit» signifie toute autorisation du Parlement à payer une somme d'argent sur le Fonds du revenu consolidé;

«deniers publics» signifie toute somme d'argent appartenant au Canada, reçue ou perçue par le receveur général ou tout autre fonctionnaire public en sa qualité officielle, ou toute personne autorisée à recevoir ou percevoir une telle somme d'argent, et comprend

a) les droits et revenus du Canada,

b) les sommes d'argent empruntées par le

at rates fixed by the Minister with the approval of the Governor in Council. R.S., c. 116, s. 20.

les taux fixés par le Ministre, et auxdits taux, avec l'approbation du gouverneur en conseil. S.R., c. 116, art. 20.

Money paid in respect of proceedings in Parliament

**16.** Where the Senate or House of Commons, by resolution or pursuant to any rule or standing order, authorizes a refund of public money that was received in respect of any proceedings before Parliament, the Receiver General may pay the refund out of the Consolidated Revenue Fund. R.S., c. 116, s. 21; 1968-69, c. 27, s. 19.

**16.** Lorsque le Sénat ou la Chambre des communes, par résolution ou en vertu de quelque règle ou article de règlement, autorise un remboursement de deniers publics reçus à l'égard de procédures devant le Parlement, le receveur général peut effectuer le remboursement à même le Fonds du revenu consolidé S.R., c. 116, art. 21; 1968-69, c. 27, art. 19.

Sommes versées relativement à des procédures devant le Parlement

Remission of taxes and penalties

**17.** (1) The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty.

**17.** (1) Sur la recommandation du conseil du Trésor, le gouverneur en conseil peut, chaque fois qu'il le juge d'intérêt public, remettre tout impôt, droit ou peine.

Remise de taxes, droits ou peines

Remission may be partial, etc.

(2) A remission pursuant to this section may be total or partial, conditional or unconditional, and may be granted

(a) before, after or pending any suit or proceeding for the recovery of the tax, fee or penalty in respect of which it is granted;

(b) before or after any payment thereof has been made or enforced by process or execution; and

(c) in the case of a tax or fee, in any particular case, or class of case and before the liability therefor arises.

(2) Une remise selon le présent article peut être totale ou partielle, conditionnelle ou absolue, et accordée

a) avant, après ou pendant une poursuite ou procédure en recouvrement de l'impôt, du droit ou de la peine à l'égard de laquelle la remise est octroyée;

b) avant ou après qu'un paiement en a été effectué ou poursuivi par voie de droit ou saisie-exécution; et,

c) s'il s'agit d'un impôt ou droit, dans tout cas particulier ou toute catégorie de cas particulière et avant que la responsabilité à cet égard prenne naissance.

Une remise peut être partielle, etc.

Form of remission

(3) A remission pursuant to this section may be granted

(a) by forbearing to institute a suit or proceeding for the recovery of the tax, fee or penalty in respect of which the remission is granted;

(b) by delaying, staying or discontinuing any suit or proceeding already instituted;

(c) by forbearing to enforce, staying or abandoning any execution or process upon any judgment;

(d) by the entry of satisfaction upon any judgment; or

(e) by repaying any sum of money paid to or recovered by the Receiver General for the tax, fee or penalty.

(3) Une remise selon le présent article peut être accordée

a) par l'abstention d'intenter une poursuite ou procédure en recouvrement de l'impôt, du droit ou de la peine à l'égard de laquelle la remise est octroyée;

b) par l'ajournement, la suspension ou la discontinuation de toute poursuite ou procédure déjà intentée;

c) par l'abstention de poursuivre toute exécution ou voie de droit sur jugement, ou par la suspension ou l'abandon d'une exécution ou voie de droit de ce genre;

d) par l'inscription de l'acquittement d'obligation sur jugement; ou

e) par le remboursement de toute somme d'argent payée au receveur général ou recouvrée par ce dernier, pour l'impôt, le droit ou la peine.

Forme de la remise

Conditional remission

(4) Where a remission is granted under this section subject to a condition, and the

(4) Lorsqu'une remise est accordée aux termes du présent article sous réserve d'une

Remise conditionnelle

condition is not performed, it may be enforced, or all proceedings may be had as if there had been no remission.

condition et que la condition n'est pas remplie, elle peut être mise à exécution, ou toutes procédures peuvent avoir leur cours comme s'il n'y avait pas eu de remise.

Effect of remission

(5) A conditional remission, upon performance of the condition, and an unconditional remission, have effect as if the remission was made after the tax, fee or penalty in respect of which it was granted had been sued for and recovered.

(5) Une remise conditionnelle, sur l'accomplissement de la condition, et une remise absolue ont le même effet que si la remise avait été opérée après la réclamation et le recouvrement de l'impôt, du droit ou de la peine à l'égard de laquelle elle a été octroyée. Effet de la remise

Customs and excise

(6) No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed.

(6) Aucun impôt payé à Sa Majesté sur des marchandises quelconques ne doit être remis du seul fait que les marchandises ont été perdues ou détruites, après qu'a été payé l'impôt et levé le contrôle des fonctionnaires de la douane ou de l'accise. Douane et accise

C.R.F.

(7) Remissions granted under this or any other Act may be paid out of the Consolidated Revenue Fund.

(7) Les remises accordées selon la présente loi ou toute autre loi peuvent être payées à même le Fonds du revenu consolidé. F.R.C.

Report

(8) A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

(8) Un état de chaque remise de mille dollars ou plus, accordée sous le régime du présent article, doit être signalé à la Chambre des communes dans les comptes publics. Rapport

Effect of remission

(9) Where a penalty imposed by any law relating to the revenue has been wholly and unconditionally remitted pursuant to this section, the remission has the effect of a pardon for the offence for which the penalty was incurred, and thereafter the offence has no legal effect prejudicial to the person to whom the remission was granted.

(9) Lorsqu'une peine infligée par une loi relative au revenu a été remise entièrement et sans condition d'après le présent article, la remise a l'effet d'un pardon pour l'infraction à l'égard de laquelle la peine a été encourue et, par la suite, l'infraction n'a aucun effet juridique préjudiciable à la personne qui a obtenu la remise. Effet de la remise

Tax and penalty

(10) In this section "tax" includes any tax, impost, duty or toll payable to Her Majesty, imposed or authorized to be imposed by any Act of Parliament, and "penalty" includes any forfeiture or pecuniary penalty imposed or authorized to be imposed by any Act of Parliament for any contravention of the laws relating to the collection of the revenue, or to the management of any public work producing toll or revenue, notwithstanding that part of such forfeiture or penalty is payable to the informer or prosecutor, or to any other person. R.S., c. 116, s. 22; 1968-69, c. 27, s. 19.

(10) Dans le présent article, l'expression «impôt» comprend toute taxe, impôt ou droit payable à Sa Majesté, établi ou dont l'établissement est autorisé par toute loi du Parlement, et l'expression «peine» comprend toute confiscation ou peine pécuniaire infligée, ou dont l'imposition est autorisée, par une loi du Parlement pour une contravention aux lois sur la perception du revenu ou la gestion de tout ouvrage public produisant un droit ou revenu, bien qu'une partie de cette confiscation ou peine soit payable au dénonciateur ou poursuivant, ou à toute autre personne. S.R., c. 116, art. 22; 1968-69, c. 27, art. 19. «Impôt» et «peine»

Uncollectable debts

18. (1) The Governor in Council, on the recommendation of Treasury Board, may make regulations authorizing deletion from the accounts, in whole or in part, of any obligation or debt due to Her Majesty or any

18. (1) Le gouverneur en conseil, sur la recommandation du conseil du Trésor, peut édicter des règlements autorisant à retrancher des comptes, en totalité ou en partie, toute obligation ou dette envers Sa Majesté ou Dettes irrecouvrables

Revenue Canada
Customs and Excise

Revenu Canada
Douanes et Accise

APPENDIX K

**MEMORANDUM D5-4**

Ottawa, June 13, 1980

**SUBJECT**

**AUTOMOBILE COMPONENTS REMISSION ORDER**

This memorandum outlines and explains the conditions under which a remission may be paid under the Automobile Components Remission Order.

**ORDER RESPECTING THE REMISSION OF A PORTION OF THE CUSTOMS DUTY AND SALES TAX PAYABLE ON AUTOMOBILES PRODUCED IN A FOREIGN COUNTRY BY A MANUFACTURER WHO HAS IMPORTED FOR INSTALLATION ON THE AUTOMOBILES CANADIAN MANUFACTURED AUTOMOBILE COMPONENTS**

**SHORT TITLE**

1. This Order may be cited as the *Automobile Components Remission Order*.

**INTERPRETATION**

2. In this Order,

"Canadian automobile components" means parts and accessories or parts thereof that are manufactured in Canada and exported out of Canada for use in the manufacture of automobiles in a foreign country;

"designated importer" means a person who imports automobiles into Canada that are manufactured in a foreign country and who has been designated by the manufacturer of the automobiles to be that manufacturer's representative in Canada;

"import period" means
(a) the period commencing on May 6, 1975 and ending on July 31, 1975, and
(b) any subsequent 12-month period commencing on August 1st and ending on July 31st.

**REMISSION OF CUSTOMS DUTY**

3. (1) Subject to subsections (2) and (3), remission of the customs duty specified in Schedule A to the *Customs Tariff* is hereby granted to each designated importer in respect of automobiles manufactured in a foreign country imported by him into Canada during the import period,

Ottawa, le 13 juin 1980

**SUJET**

**DÉCRET DE REMISE SUR LES PIÈCES COMPOSANTES D'AUTOMOBILES**

Le présent mémorandum décrit et explique les conditions en vertu desquelles une remise peut être accordée conformément décret de remise sur les pièces composantes d'automobiles.

**DÉCRET CONCERNANT LA REMISE D'UNE PARTIE DES DROITS DE DOUANE ET DE LA TAXE DE VENTE PAYABLES SUR LES AUTOMOBILES DE FABRICATION ÉTRANGÈRE PAR UN FABRICANT QUI A IMPORTÉ, POUR INSTALLATION SUR CES AUTOMOBILES, DES PIÈCES COMPOSANTES D'AUTOMOBILES FABRIQUÉES AU CANADA**

**TITRE ABRÉGÉ**

1. Le présent décret peut être cité sous le titre: *Décret de remise sur les pièces composantes d'automobiles*.

**INTERPRÉTATION**

2. Dans le présent décret,

"importateur désigné" s'entend d'une personne qui importe au Canada des automobiles de fabrication étrangère et qui a été désignée par le fabricant de ces automobiles comme le représentant de celui-ci au Canada;

"période d'importation" désigne
a) la période commençant le 6 mai 1975 et se terminant le 31 juillet 1975, et
b) toute période subséquente de 12 mois commençant le 1er août et se terminant le 31 juillet;

"pièces composantes d'automobiles fabriquées au Canada" désigne les pièces et accessoires ou pièces d'accessoires qui sont fabriqués au Canada et exportés du Canada pour être utilisés dans la fabrication d'automobiles à l'étranger.

**REMISE DES DROITS DE DOUANE**

3. (1) Sous réserve des paragraphes (2) et (3), est accordée à tous les importateurs désignés la remise des droits de douane spécifiés dans la liste A du *Tarif des douanes* à l'égard des automobiles fabriquées à l'étranger et importées au Canada par un importateur désigné au cours de la période d'importation si

. . . 2

(a) that have installed thereon

(i) Canadian automobile components as original equipment, or

(ii) automobile components similar to and in lieu of the Canadian automobile components imported by the manufacturer of the automobiles; and

(b) in respect of which no claim for drawback has been paid in respect of the Canadian automobile components.

(2) The amount of the customs duty remitted pursuant to subsection (1) is an amount equal to the difference between

(a) the customs duty payable on the imported automobiles; and

(b) the customs duty that would have been payable if the value for duty of the imported automobiles had been reduced by deducting an amount determined by the Deputy Minister of National Revenue for Customs and Excise as the fair market value of the automobile components manufactured in the foreign country that are

(i) installed on the automobiles in lieu of Canadian automobile components, or

(ii) replaced by Canadian automobile components.

"(3) Remission shall not be granted under this Order to a designated importer in respect of any automobiles imported during any import period by that importer that are greater in number than the number of such automobiles on which there could have been installed Canadian automobile components exported for installation on those automobiles."

**REMISSION OF SALES TAX**

4. Remission is hereby granted to each designated importer of the sales tax payable on each imported automobile for which customs duty is remitted pursuant to subsection 3(1) in an amount equal to the difference between

(a) the sales tax payable on the automobile prior to the remission of the customs duty under this Order; and

(b) the sales tax payable on the automobile following the remission of the customs duty under this Order.

**GENERAL**

"5. The designation of a designated importer by a foreign automobile manufacturer shall be made in writing, addressed to the Deputy Minister of National Revenue for Customs and Excise, for each import period, and shall be communicated by post not later than sixty days following the date of entry of the first importation from the foreign automobile manufacturer for which remission is sought in the import period."

a) elles sont équipées

(i) en tant qu'équipement d'origine, de pièces composantes d'automobiles fabriquées au Canada, ou

(ii) de pièces composantes d'automobiles analogues à la place des pièces composantes d'automobiles fabriquées au Canada et importées du Canada par le fabricant des automobiles; et

b) aucun drawback n'a été accordé à l'égard des pièces composantes d'automobiles fabriquées au Canada et dont sont équipées ces automobiles.

(2) Le montant de la remise accordée conformément au paragraphe (1) est égal à la différence entre

a) les droits de douane payables sur les automobiles importées; et

b) les droits de douane qui auraient été payables si la valeur imposable des automobiles importées avait été réduite en déduisant un montant déterminé par le sous-ministre du Revenu national pour les douanes et l'accise, comme étant la juste valeur marchande des pièces composantes d'automobiles fabriquées dans le pays étranger

(i) qui équipent les automobiles à la place des pièces composantes d'automobiles fabriquées au Canada, ou

(ii) qui sont remplacées par des pièces composantes d'automobiles fabriquées au Canada.

"(3) Aucune remise n'est accordée à un importateur désigné pour des automobiles qu'il a importées au cour d'une période d'importation, si leur nombre excède le nombre d'automobiles sur lesquelles pouvaient être installées des pièces composantes d'automobiles fabriquées au Canada et exportées à cette fin."

**REMISE DE LA TAXE DE VENTE**

4. Est accordée à tous les importateurs désignés la remise de la taxe de vente payable sur toute automobile importée faisant l'objet d'une remise des droits de douane conformément au paragraphe 3(1); le montant de la remise accordée par le présent article est égal à la différence entre

a) la taxe de vente payable sur l'automobile avant la remise des droits de douane en vertu du présent décret, et

b) la taxe de vente payable sur l'automobile après la remise des droits de douane en vertu du présent décret.

**DISPOSITIONS GÉNÉRALES**

"5. Un fabricant d'automobiles étranger doit faire parvenir au sous-ministre du Revenu national pour les douanes et l'accise, le nom de son importateur désigné pour chaque période d'importation pour laquelle une remise est demandée; ce choix devant être posté dans les soixante jours suivant la date d'entrée de la première importation en provenance de ce fabricant."

## GENERAL INFORMATION

1. The importer will clearly indicate on the departmental copy of all entries under this Order, that they are to be forwarded to the Regional DRR Unit.

2. Remission may not be granted in respect of penalties paid on imported goods.

## RENSEIGNEMENTS GÉNÉRAUX

1. L'importateur doit indiquer clairement sur la copie, destinée au Ministère, des déclarations faites en vertu du présent décret que ces déclarations doivent être envoyées à l'unité régionale DRR.

2. Aucune remise ne peut être accordée à l'égard d'amendes payées sur les marchandises importées.

| REFERENCES | RÉFÉRENCES |
|---|---|
| EFFECTIVE DATE – | DATE D'ENTRÉE EN VIGUEUR – |
| ISSUING OFFICE –<br>DRAWBACK AND REFUND UNIT<br>TARIFF RELIEF PROGRAMS<br>TARIFF PROGRAMS<br>CUSTOMS PROGRAMS | BUREAU ÉMETTEUR –<br>SERVICE DES DRAWBACKS ET REMBOURSEMENTS<br>PROGRAMMES DE DÉGRÈVEMENT TARIFAIRE<br>PROGRAMMES TARIFAIRES<br>PROGRAMMES DES DOUANES |
| LEGISLATIVE REFERENCES –<br>SECTION 17, *FINANCIAL ADMINISTRATION ACT*<br>PC 1975-1024, MAY 6, 1975 | RÉFÉRENCES LÉGALES –<br>L'ARTICLE 17 DE LA *LOI SUR L'ADMINISTRATION FINANCIÈRE*<br>CP 1975-1024, LE 6 MAI 1975 |
| HEADQUARTERS FILE # –<br>6592-5 | DOSSIER DE L'ADMINISTRATION CENTRALE –<br>6592-5 |
| SUPERSEDED MEMORANDA – | CECI ANNULE LES MÉMORANDUMS – |
| OTHER REFERENCES – | AUTRES RÉFÉRENCES – |

THIS MEMORANDUM IS ISSUED UNDER THE AUTHORITY OF THE DEPUTY MINISTER OF NATIONAL REVENUE, CUSTOMS AND EXCISE.

CE MÉMORANDUM A L'APPROBATION DU SOUS-MINISTRE DU REVENU NATIONAL, DOUANES ET ACCISE.

June 13, 1980

13 juin 1980

Senator WILSON. Thank you very much, Mr. McMinn. Mr. Cole, would you summarize your prepared statement?

**STATEMENT OF ROBERT E. COLE, CORPORATE VICE PRESIDENT, GOVERNMENT AFFAIRS, KAISER ALUMINUM & CHEMICAL CORP.**

Mr. COLE. Thank you, Senator Wilson, I will do that. I am Robert E. Cole, corporate vice president of government affairs for the Kaiser Aluminum & Chemical Corp.

One of the statements which I would not like to summarize, Senator Wilson, is my sincere gratitude for the personal interest which you have taken in the trade issues with Japan and other Pacific Rim countries. As you know, Kaiser's headquarters and some of our key plants and real estate developments are in California. Kaiser's management and employees are very much aware and very appreciative of your work and accomplishment as a U.S. Senator on trade and other national issues.

Kaiser Aluminum & Chemical Corp. is one of the world's major, fully integrated aluminum producers and has operations in industrial chemicals, real estate, and oil and gas. The corporation operates production plants and other major facilities in 25 States, and has activities in 13 foreign countries, including a small partnership in Japan that sells electroplating chemicals to the Japanese automotive industry.

Kaiser is the largest supplier of fabricated aluminum products to the U.S. automotive industry.

Kaiser's chemical operations also produce a variety of automotive products.

Earlier this month, Mr. Thomas D. Pitzer, who is Kaiser's automotive marketing manager, and I accompanied Department of Commerce Assistant Secretary H.P. Goldfield and other government officials and automotive parts industry executives on the United States-Japan Executive Trade Mission on Automotive Parts. Kaiser's participation in the trade mission was an expression of our desire to become a supplier to the Japanese automotive companies in their manufacturing operations both in the United States and in Japan.

Kaiser's United States facilities are particularly well located to serve the Japanese automotive industry.

As stated earlier, our corporate headquarters is in Oakland, CA. Also located in California are the Kaiser Center for Technology in Pleasanton, a forging plant in Oxnard, and an extrusions plant in Los Angeles.

One of our two major U.S. sheet and plate mills and two of our primary aluminum smelters are in Washington State. Last year, Kaiser completed a $230 million modernization of the rolling mill, using world class, computer controlled technology.

Kaiser's other automotive-related plants are located in America's industrial heartland, near the locations of existing and proposed plants of the Japanese auto companies. We have a major rolling mill in Ravenswood, WV; a rod, bar and wire plant in Newark, OH; a forging plant in Erie, PA; and extrusions plants in Baltimore, MD, and Sherman, TX.

As a cost competitive, reliable, and quality supplier to the automotive industries in America and Europe, Kaiser should be sought by the Japanese as an excellent supplier to their automotive industry.

Given fair market access, American aluminum companies should be exceptionally competitive with the Japanese aluminum companies. In fact, several of the Japanese auto executives acknowledged that their domestic aluminum industry was experiencing very difficult times. The Japanese aluminum industry has been designated as 1 of 12 depressed industries undergoing reorganization by the Government. The Japanese Government has also protected the domestic aluminum industry with high tariffs and nontariff barriers which are the object of current, bilateral trade discussions by the United States and Japanese Governments.

Currently, Japanese cars and trucks use little or no aluminum. American vehicles use an average of 140 pounds. American trucks are large users of aluminum.

When we inquired of the Japanese auto executives why they did not use more aluminum, the gentlemen generally referred to the uncompetitive situation in the Japanese aluminum industry and said that therefore they used other Japanese-manufactured materials.

Only one Japanese automotive company, Mazda, uses aluminum extensively in one model car, the RX-7. The aluminum provides weight savings and thus better fuel economy in that sporty car. Mazda is also the automotive company which announced, while the trade mission was in Japan, that the automobiles produced by its soon-to-be-completed assembly plant in Flat Rock, MI, will initially have 51.8-percent U.S. content. According to the Mazda announcement, the U.S. content of their cars produced in Michigan is scheduled to increase to 70 percent by 1990.

The meetings which the U.S. Executive Trade Mission members held with the officials of MITI and executives of JAMA and the individual automotive companies were conducted in an atmosphere of both international respect and national pride.

The Japanese industrialists were obviously very proud of Japan's remarkable economic success. In the last four decades, they have built the world's second largest national economy.

We, the Americans, are also very proud of our Nation's remarkable economic success. For the last century, we have successfully maintained the world's largest national economy. And America is world renowned for the openness of our market and the high living standards which the U.S. economy has provided for our population.

All of the American business participants in the mission were grateful for, and complimentary of, the work done by the Commerce Department, State Department, and USTR for the mission.

Clearly, discussions with potential customers under the stress of a government-sponsored meeting are not ideal for the development of good business relations. However, no business relationship can ever be established unless both parties, suppliers and customers, can meet to discuss their respective capabilities and needs. As Assistant Secretary H.P. Goldfield has repeatedly said, business trade requires both willing sellers and willing buyers.

All of the Japanese officials and businessmen we met were exceedingly courteous. Unfortunately, however, our business meetings were not very encouraging. There were moments of friendship and hours of frustration.

The Kaiser participants did not ask for, nor expect to receive, signed purchase orders from the Japanese. We sought to initiate discussions with some Japanese companies and to further discussions with another. Our business meetings, at best, were inconclusive.

We were given several "reasons" for the general lack of interest or hesitancy by the Japanese auto executives in doing business with American companies. The most frequently stated reasons and my personal observations on each are as follows:

The distance between the United States and Japan is too long to allow U.S. companies to be reliable, "just-in-time" suppliers. The problem resulting from long-distance supply lines can be adequately handled with scheduling and warehousing. Apparently, the Japanese concur with this assessment because they rely heavily on Japanese-based suppliers for components for their U.S. assembled cars and plan to continue heavily relying on their traditional Japanese suppliers for parts to new U.S. assembly plants in the future.

U.S. technology is often inferior was a second reason given. Anyone who compares today's U.S. cars to the cars built a decade ago would readily see the technological advances, especially in fuel economy, engine technology, and electronics made by the U.S. auto manufacturers and component companies.

As discussed earlier, the U.S. aluminum industry's technology certainly is not inferior to that of the Japanese. In at least one key automotive produce area, aluminum forgings, the Japanese industry has very little capacity or technology. In other areas, American aluminum companies, including Kaiser, have received royalties on aluminum technology we've supplied to the Japanese industry.

A third reason was, U.S. products have inferior quality, U.S. motor vehicle and component manufacturing components have made major improvements in product quality in recent years due to increased customer demands.

As a major supplier to the aerospace industry and the can manufacturing industry, Kaiser Aluminum & Chemical Corp. has had considerable experience with very tight quality controls. We have recently won quality awards from our United States customers, and we can supply top quality products to the Japanese auto industry, if given the opportunity.

U.S. workers are strike prone and not sufficiently productive. Kaiser and the United Steel Workers of America last year agreed to a 3-year contract to substantially increase worker productivity, reduce wage and salary costs, and improve worker quality performance. Cooperation between the steelworkers union and Kaiser management is exceptionally good and as part of that cooperation the company and steelworkers have agreed to place a union representative on the Kaiser board of directors. Kaiser's tradition of good relations and cooperation with our employees is reflected in our long-term company slogans: "Together We Build" and "One Person Can Make a Difference."

Japanese automotive manufacturers have long-term relations with their traditional Japanese suppliers which cannot be interrupted. I believe the traditional relationship between the Japanese automotive manufacturers and their Japanese suppliers, which are frequently companies in the same industrial groupings with interlocking directorships, is the basis of the problem of market access for United States companies.

Like all blanket statements, the Japanese reasons for not wanting to buy American automotive parts and components may be useful as general rhetoric, but cannot and should not be used to judge each and every American company. The reasons too often appear to me to be simply excuses or rationalizations rather than true reasons.

The United States industry participants in the Auto Parts Trade Mission to Japan did not ask for special treatment by the Japanese. We asked only for market access, the opportunity to compete fairly with Japanese suppliers based upon objective considerations of such important business factors as price, quality, deliverability, and service.

We all were, I believe, skeptical about the reactions we got from the Japanese. Our skepticism and our concerns about unfair treatment of United States companies were substantially increased when we learned from press reports of the Japanese industry's and the Japanese Government's refusal to accept the United States Government's proposal to make auto parts the next subject for United States-Japan market-oriented sector-specific, MOSS, talks. According to press reports, the Japanese industry's position is based largely upon the Japanese concerns that the MOSS talks would interfere with the industry's plans to continue relying on exported parts from traditional, Japanese-based suppliers for United States-based assembly plants.

Based upon the reluctance of the Japanese auto executives to deal with United States suppliers and the resistance of the Japanese to trade initiatives of the United States Government, I am very concerned that the Japanese economy remains essentially a closed system. It appears to be a private club with entrance restricted to members and guests only.

Like most United States business persons, I have a strong philosophical belief in free trade. But, also like most U.S. business persons, I have a stronger, pragmatic commitment to fair trade. Fair trade requires reciprocity in market access.

While I was on the trade mission several Japanese businessmen told me of the cultural basis for the Japanese auto companies' links to their suppliers and the historical basis of the Japanese people's resistance to imports of foreign products. The businessmen requested that Americans be more patient and understanding of these traits.

As a former history teacher, I am very aware of the importance of culture and history. I can understand the Japanese trade dilemma.

I hope the Japanese also appreciate the situation in America. There are strong cultural and historical bases for the American insistence on fairness in economic and trade relations, just as there

are cultural and historical basis for the Japanese position on trade issues.

No matter what our individual positions on such actions as the current privately organized "Made in America" and "Buy American" campaigns, the current congressional calls for trade sanctions against Japan, or the current consumer boycotts against companies doing business in South Africa, we must all recognize that those actions have grown out of concerns about economic unfairness and are consistent with our American culture and our heritage.

The strong sentiment among the American public today for protectionist trade policies is a reflection of increased impatience with a trade system that appears to subordinate the open, fair trade-based economy of the United States to the closed, export-based economy of Japan. To meet the fundamental American concept of fairness, trade between the United States and Japan must be either conducted in a process providing reciprocity in open access to competitive sellers and buyers on both sides of the Pacific Ocean or conducted with reciprocity of protective barriers.

I sincerely hope that MITI officials and executives in the Japanese automotive and aluminum industries recognize that the fairness which Americans ultimately demand in economic and trade relations is best achieved voluntarily as the first principle of good business practice rather than mandatorily as the last resort of strong governmental policy.

We at Kaiser Aluminum & Chemical Corp. would like to develop good business relations with Japanese companies. We have competitive products to sell. We hope they have a sincere willingness to buy. I will, of course, be pleased to keep you and Assistant Secretary Goldfield informed of any progress we make. Thank you.

[The prepared statement of Mr. Cole follows:]

## Prepared Statement of Robert E. Cole

Senator Wilson and other very distinguished Members of the Joint Economic Committee, I am Robert E. Cole, Corporate Vice President of Government Affairs for the Kaiser Aluminum & Chemical Corporation. I am pleased and honored to testify today on the subject of U.S. - Japanese trade in auto parts at this hearing of the Subcommittee on Trade, Productivity and Economic Growth.

I also want to express Kaiser's gratitude at the personal interest which you, Senator Wilson, have taken in the trade issues with Japan and other Pacific Rim countries. As you know, Kaiser's headquarters and some of our key plants and real estate developments are in California. Kaiser's management and employees are aware and very appreciative of your work and accomplishment as a United States Senator on trade and other national issues.

Kaiser Aluminum and Chemical Corporation is one of the world's major, fully integrated aluminum producers and has

operations in industrial chemicals, real estate, and oil and gas. The Corporation operates production plants and other major facilities in 25 states, and has activities in 13 foreign countries.

Kaiser is the largest supplier of fabricated aluminum products to the U.S. automotive industry. Our U.S. fabricating plants produce sheet, plate, extrusions, forgings, rod, bar, wire and other wrought aluminum products for motor vehicle manufacturing and component manufacturing companies.

Other major aluminum markets include aircraft, aerospace, defense, can stock, foil and container, electrical and computer component products, drainage products, and distributor products.

Kaiser's chemical operations also produce a variety of automotive products including alumina for catalysts, pigments for paint and vinyl coloring, fluorocarbons for air conditioners, fabricated magnesium products, and processes and equipment for electroplating copper, nickel, chromium and zinc.

In Japan, Kaiser is a partner in the Harshaw Murata Company, Ltd. which sells electroplating chemicals and equipment to the Japanese automotive industry.

Earlier this month, Mr. Thomas D. Pitzer, who is Kaiser's Automotive Marketing Manager, and I accompanied Department of Commerce Assistant Secretary H. P. Goldfield and other government officials and automotive parts industry executives on the U.S. Japan Executive Trade Mission on Automotive Parts. Kaiser's participation in the Trade Mission was an expression of our

desire to become a supplier to the Japanese automotive companies in their manufacturing operations both in the United States and in Japan.

Kaiser's U.S. facilities are particularly well located to serve the Japanese automotive industry.

As stated earlier, our corporate headquarters is in Oakland, California. Also located in California are the Kaiser Center for Technology in Pleasanton, a forging plant in Oxnard, and an extrusions plant in Los Angeles.

One of our two major U.S. sheet and plate mills and two of our primary aluminum smelters are in Washington State. Last year, Kaiser completed a $230 million modernization of the rolling mill, using world-class, computer controlled technology.

Kaiser's other automotive-related plants are located in America's industrial heartland, near the locations of existing and proposed plants of the Japanese auto companies. We have a major rolling mill in Ravenswood, West Virginia, a rod, bar and wire plant in Newark, Ohio, a forging plant in Erie, Pennsylvania, and extrusions plants in Baltimore, Maryland and Sherman, Texas. Our fluorocarbon and alumina producing plants are in Baton Rouge and Gramercy, Louisiana. The pigments plant is in Louisville, Kentucky. The electroplating chemicals facility is in Cleveland, Ohio.

As a cost competitive, reliable, and quality supplier to the automotive industries in America and Europe, Kaiser should be sought by the Japanese as an excellent supplier to their automotive industry.

Given fair market access, American aluminum companies should be exceptionally competitive with the Japanese aluminum companies. In fact, several of the Japanese auto executives acknowledged that their domestic aluminum industry was experiencing very difficult times. The Japanese aluminum industry has been designated as one of twelve "depressed" industries undergoing reorganization by the government. The Japanese government has also protected the domestic aluminum industry with high tariffs and non-tariff barriers which are the object of current, bilateral trade discussions by the U.S. and Japanese governments.

Currently Japanese cars and trucks use little or no aluminum. American vehicles use an average of 140 pounds. American trucks are large users of aluminum.

When we inquired of the Japanese auto executives why they did not use more aluminum, the gentlemen generally referred to the uncompetitive situation in the Japanese aluminum industry and said that therefore they used other, Japanese-manufactured materials.

Only one Japanese automotive company, Mazda, uses aluminum extensively in one model car, the RX-7. The aluminum provides weight savings and thus better fuel economy in that sporty car. Mazda is also the automotive company which announced, while the Trade Mission was in Japan, that the automobiles produced by its soon to be completed assembly plant in Flat Rock, Michigan, will

initially have 51.8 percent U.S. content. According to the Mazda announcement, the U.S. content of their cars produced in Michigan is scheduled to increase to 70 percent by 1990.

The meetings which the U.S. Executive Trade Mission members held with the officials of MITI and executives of JAMA and the individual automotive companies were conducted in an atmosphere of both international respect and national pride.

The Japanese industrialists were obviously very proud of Japan's remarkable economic success. In the last four decades, they have built the world's second largest national economy. Some of their industries - and particularly the Japanese automotive industry - are formidable World competitors. Toyota and Nissan are, respectively, the World's third and fourth largest automotive companies. And the Japanese are World-renown for their emphasis on exports.

We, the Americans, were also very proud of our Nation's remarkable economic success. For the last century, we have successfuly maintained the World's largest national economy. With twice the population of Japan, we have an economy three times the size of Japan's. Many of our industries - including the American automotive industry - are formidable World competitors. General Motors is the World's largest automotive company - three times the size of Toyota. Ford is the World's second largest automotive company - twice the size of Toyota.

And, America is World renown for the openness of our market and the high living standards which the U.S. economy has provided for our population.

Both the Japanese and American participants were uncomfortable with the "forced" nature of the Trade Mission meetings. Several of the Japanese expressed to us their concerns about being required by MITI to participate in the meetings. The Americans were generally sympathetic with the Japanese concerns but believed the assistance of the U.S. Government was necessary for us to obtain access to the Japanese industry executives.

All of the American business participants in the Mission were grateful for and complementary of the work done by the Commerce Department, State Department and U.S.T.R. for the Mission.

Clearly, discussions with potential customers under the stress of a government-sponsored meeting are not ideal for the development of good business relations. However, no business relationship can ever be established unless both parties, suppliers and customers, can meet to discuss their respective capabilities and needs. As Assistant Secretary H. P. Goldfield has repeatedly said, business trade requires both willing sellers and willing buyers.

All of the Japanese officials and businessmen we met were exceedingly courteous. Unfortunately, however, our business meetings were not very encouraging. There were moments of friendship and hours of frustration.

The Kaiser participants did not ask for nor expect to receive signed purchase orders from the Japanese. We sought to initiate discussions with some Japanese companies and to further discussions with others. We described our Company and our products, attempted to learn their needs and business practices, and tried to arrange a continuing dialogue with all of the Japanese companies. We focused primarily on our desire to sell to U.S. based operations of the Japanese companies and secondarily on our efforts to penetrate Japan's domestic economy.

With two possible exceptions, the business meetings we held were at best, inconclusive. One supplier company, to which Kaiser had previously submitted a bid for business at a U.S. plant owned by that Japanese company, stated that in light of the change in the yen/dollar exchange rate, the company was reconsidering its prior rejection of Kaiser's proposal. We were invited to resubmit our bid and supply product samples to the company's headquarters in Japan. (We had been verbally informed several months ago that our "quality was unacceptable", but had never submitted product samples.) Another company, a major vehicle manufacturer, told us flatly that the company did not contemplate doing business directly with us or other American companies not currently suppliers until at least the 1990's, even in the companies proposed new U.S. assembly facility.

We were given several "reasons" for the general lack of interest or hesitancy by the Japanese auto executives in doing

business with American companies. The most frequently stated reasons and my personal observations on each are as follows:

1) The distance between the U.S. and Japan is too long to allow U.S. companies to be reliable, "just-in-time" suppliers.

The problem resulting from long distance supply lines can be adequately handled with scheduling and warehousing. Apparently the Japanese concur with this assessment because they rely heavily on Japanese-based suppliers for components for their U.S. assembled cars and plan to continue heavily relying on their traditional Japanese suppliers for parts to new U.S. assembly plants in the future.

2) U.S. technology is often inferior.

Anyone who compares today's U.S. cars to the cars built a decade ago would readily see the technological advances, especially in fuel economy, engine technology and electronics made by the U.S. auto manufacturers and component companies.

As discussed earlier, the U.S. aluminum industry's technology certainly is not inferior to that of the Japanese. In at least one key automotive product area, aluminum forgings, the Japanese industry has very little capacity or technology. In other areas, American aluminum companies, including Kaiser, have received royalities on aluminum technology we've supplied to the Japanese industry.

3) U.S. product quality is inferior.

U.S. motor vehicle and component manufacturing companies have made major improvements in product quality in recent years due to increased customer demands.

As a major supplier to the aerospace industry and the can manufacturing industry, Kaiser Aluminum and Chemical Corporation has had considerable experience with very tight quality controls. We have recently won quality awards from our U.S. customers, and we can supply top quality products to the Japanese auto industry, if given the opportunity!

4) U.S. workers are strike prone and not sufficiently productive.

Kaiser and the United Steel Workers of America last year agreed to a three (3) year contract to substantially increase worker productivity, reduce wage and salary costs, and improve quality performance. Cooperation between the Steelworkers union and Kaiser management is exceptionally good and as part of that cooperation, the Company and Steelworkers have agreed to place a union representative on the Kaiser board. Kaiser's tradition of good relations and cooperation with our employees is reflected in our two long-term company slogans, "Together We Build" and "One Person Can Make a Difference".

5) Japanese automotive manufacturers have long-term relations with their traditional Japanese suppliers which cannot be interrupted.

I believe the traditional relationship between the Japanese automotive manufacturers and their Japanese suppliers (which are frequently companies in the same industrial "groups" with interlocking directorships) is the basis of the problem of market access for U.S. companies.

Like all blanket statements, the Japanese "reasons" for not wanting to buy American automotive parts and components may be

useful as general rhetoric, but cannot be used to judge each and every American company. The "reasons" too often appear to be simply excuses or rationalizations rather than true reasons.

The U.S. industry participants in the Auto Parts Trade Mission to Japan did not ask for special treatment by the Japanese. We asked only for market access, the opportunity to compete fairly with Japanese suppliers based upon objective considerations of such important business factors as price, quality, deliverability, and service.

We all were, I believe, skeptical about the reactions we got from the Japanese. Our skepticism and our concerns about unfair treatment of U.S. companies were substantially increased when we learned of the Japanese industry's and the Japanese government's refusal to accept the U.S. government's proposal to make auto parts the next subject for U.S. - Japan Market-Oriented Sector-specific (MOSS) talks. According to press reports, the Japanese industry's position is based largely upon the Japanese concerns that the MOSS talks would interfere with the industry's plans to continue relying on exported parts from traditional, Japanese-based suppliers for U.S.-based assembly plants.

Based upon the reluctance of the Japanese auto executives to deal with U.S. suppliers and the resistance of the Japanese to trade initiatives of the U.S. Government, I am very concerned that the Japanese economy remains essentially a closed system. It appears to be a private club with entrance restricted to members and guests only.

According to an article in the April 14, 1986, edition of Business Week magazine, auto industry analysts expect "30 percent of domestic auto-making capacity - representing at least 2.5 million cars - to disappear within five years". The article predicts large increases in imports and increases in the production of cars by Japanese manufactuers in the U.S. Exclusion of U.S. suppliers from access to the component business for Japanese cars built in Japan and in the U.S. will be severely damaging to many U.S. companies.

Like most U.S. business persons, I have a strong philosophical belief in free trade. But, also like most U.S. business persons, I have a stronger, pragmatic commitment to fair trade. Fair trade requires reciprocity in market access.

While I was on the Trade Mission, several Japanese businessmen told me of the cultural basis for the Japanese auto companies' links to their suppliers and the historical basis of the Japanese people's resistance to imports of foreign products. The businessmen requested that Americans be more patient and understanding of these traits.

As a former history teacher, I am very aware of the importance of culture and history. I can understand the Japanese trade dilemma.

I hope the Japanese also appreciate the situation in America. There are strong cultural and historical bases for the American insistence on fairness in economic and trade relations.

Public and government actions to oppose unfair trade practices have been part of our national character since the very birth of this Nation. The often referenced Boston Tea Party was a protest against the dominance in the tea trade of the British East India Trading Company. England's slowness to correct the trading situation with the American Colonies (in which the island empire of Britain restricted America's economic activities to those of supplying raw materials and serving as a market for finished goods) resulted in the American public engaging in wide-spread consumer boycotts of British goods in the 1760's and 1770's. The public sentiment against British trade practices was so strong in 1774 that the First Continental Congress responded by adopting a non-importation resolution virtually eliminating imports from Britain.

No matter what our individual positions on such actions as the current privately organized "made in America" and "buy American" campaigns, the current Congressional calls for trade sanctions against Japan, or the current consumer boycotts against companies doing business in South Africa, we must all recognize that those actions have grown out of concerns about economic unfairness and are consistent with our American culture and our heritage.

The strong sentiment among the American public today for protectionist trade policies is a reflection of increased impatience with a trade system that appears to subordinate the open, fair trade-based economy of the United States to the

closed, export-based economy of Japan. To meet the fundamental American concept of fairness, trade between the United States and Japan must be either conducted in a process providing reciprocity in open access to competitive sellers and buyers on both sides of the Pacific Ocean or conducted with reciprocity of protective barriers.

I sincerely hope that MITI officials and executives in the Japanese automotive and aluminum industries recognize that the fairness which Americans ultimately demand in economic and trade relations is best achieved voluntarily as the first principal of good business practice rather than manditorily as the last resort of strong government policy.

We at Kaiser Aluminum and Chemical Corporation would like to develop good business relations with Japanese companies. We have competitive products to sell. We hope they have a sincere willingness to buy. I will, of course, be pleased to keep you informed of any progress we make.

Thank you.

Senator WILSON. Thank you very much, Mr. Cole, and let me invite you to do just that. I hope that you will have made progress. On the basis of your testimony and Mr. McMinn's, however, it seems that all three of us are in agreement that progress is going to be contingent upon the combined pressures brought by you businessmen along with that which can be exerted by public sector representatives.

Let me specifically invite your attention to the testimony that you presented this morning. Both of you have focused properly on the MOSS talks and the failure of the Japanese to approve automotive parts as the subject for MOSS negotiations.

Mr. McMinn, in your prepared statement, you state:

> MOSS, it would appear, is in danger of becoming a victim of its own success, with the Japanese anxious to duck the high visibility and the concessions.

Mr. Cole, you indicate your skepticism about Japan's willingness to afford market access to United States firms was heightened by some additional information. You state:

> According to press reports, the Japanese industry's position is based largely upon the Japanese concerns that the MOSS talks would interfere with the industry's plans to continue relying on exported parts from traditional, Japanese-based suppliers for United States-based assembly plants.

Mr. Cole, throughout your testimony and that of Mr. Procassini, it thus seems clear that the heart of the problem is located in this cozy relationship that you describe as analogous to a club in which only members and invited guests participate.

I hope you will take some comfort in the fact that we agree with your assessment, and said as much last summer when along with several colleagues including Senator Dole, went to Japan, Korea, Taiwan, Hong Kong, and the People's Republic of China. In Tokyo we were guests of the Keidanren, the Japanese analogue to the United States Business Round Table or to the United States Chamber of Commerce board of directors, where we were invited to make presentations.

We took advantage of that opportunity and I made the point at the time, as with other Japanese audiences, that this catalog of reasons for American failure was something that I not only did not buy that I thought it was a totally academic argument.

Like you, I asked only for market access. I said that if we're not competitive, that is our problem; it is not yours. But I am not impressed by a call on the part of the Prime Minister to "Buy American." He can say that to the Japanese people. If there are in fact no American goods in the Japanese marketplace, however, it is impossible for them to buy American.

So I think the point is well made that this catalog of Japanese reasons for American failure is not at all persuasive. What would be persuasive would be real market access, real opportunity for a market share, and if in fact we were then not competitive, if the Japanese consumers freely make a choice based on cost and quality and chose Japanese goods, then we would have no fair basis for complaining. That is not the situation.

I take it that you are not optimistic about the trade facilitation committee's prospects. Does this situation thus require greater ef-

forts on our part to provide the committee with a stronger mandate to press for inclusion of auto parts into the MOSS talks?

Mr. COLE. Senator, I have been in Washington, DC, for 20 years now in and out of Government and I would wholeheartedly concur with what you said.

I would also add that I think the cooperation between our Government today and American industry is at its high point and to the extent that we continue to see resistance on the part of the Japanese to our attempts to gain competitive access to their market, I think that cooperation will continue, and it is essential if we are ever to break into that club.

Mr. MCMINN. I would comment, if you will, that the TFC is certainly a useful tool at a company-to-company specific issue type of level, but absent the broad-scale interest amd visibility and big issue discussions that MOSS brings with it, I don't think the TFC by itself is the answer to the problem, nor could it be hugely successful in the absence of the MOSS talks.

Mr. COLE. I might add if I could, Senator, that the yardstick which we, at Kaiser, would use for determining the success of our efforts to gain access to the Japanese production here in the United States and in Japan does not measure how many specific actions are restrictive activities they remove. It measures results in terms of business. That's what we're after and that's how we will determine success or failure.

Senator WILSON. Is there any analog to consumer groups that exist here in the United States in Japan? Is there anybody there that argues for access, for competition?

Mr. MCMINN. I am not familiar with any such group.

Let me just put another analogy in front of you concerning the vehicle service industry. In the United States, once the vehicles are on the road, 75 percent of service is done by independent outlets and 25 percent is done by the new car dealers who are franchised agents for the factories. In Japan, it's the reverse: A very tightly held 75 percent of the service work is done by the new car dealers, who have very restrictive contracts with their factories, and only 25 percent is done by the aftermarket.

There just is not the same competitive, viable, independence of the factories' aftermarket there and I don't see any big signs that it is changing.

There really is only one mass merchandiser of automotive parts and accessories in Japan using a U.S. model. He's been pretty successful but it's been difficult for him to get merchandise. It's again the closed-club syndrome.

Mr. COLE. I don't know what the organized consumerism situation is in Japan. However, Tom Pitzer and I did spend quite a bit of time going around and looking in Japanese shops and also visiting dealerships in each of the Japanese automotive manufacturing companies, and we were struck by two things: One, we were surprised at how high the prices were and, two, we were very surprised to find that in the Japanese dealerships of every company we visited, there were brochures advertising their cars based on American concepts and really touting the American aspects of their cars in terms of performance and quality and general living standards here in the United States.

That made me skeptical about some of the claims.

Senator WILSON. They used an American sales pitch?

Mr. COLE. Absolutely, and the brochures would be in Japanese but in English too—big headlines, "American power, American quality, American this and American that." I would be pleased to send some of those to the subcommittee if you would like to see them.

Senator WILSON. We would be happy to see them.

Also, although we do not have time to develop it this morning, I would be very interested in your providing me with an amplified statement documenting how other nations—Mexico, Taiwan, and South Korea, for three—are engaging in similar practices.

Mr. Cole, you mentioned that it was your impression that some of the Japanese autoparts suppliers that you had met with seemed ill at ease during the recent mission to Tokyo that you participated in. Were you able to pursue that with any of them and determine the cause of their uneasiness?

Mr. COLE. One of the Japanese suppliers told us privately that they were owned in large measure by one of the major automotive manufacturers and, therefore, their ability to deal with outside suppliers such as aluminum suppliers was contingent upon the blessings of the major manufacturer.

There were other comments that were made informally that led me to conclude that the relationship over there is one of dominance on the part of the major manufacturers of their suppliers, and that that is a problem of our trying to break into that system.

Senator WILSON. You and Mr. McMinn have made a case for the fact that there is this relationship between bankers and manufacturers and really identified it. I don't know whether their interest is more in profit or in employment, but I suppose from their point of view they have kept both at a maximum by promoting this special Japanese supplier to Japanese purchaser relationship.

In some earlier hearings, I might say, we touched on the fact that the Japanese have the same antitrust laws as the United States and very different enforcement. Has that come up at all in your discussions—I wouldn't expect it really in the context of the TFC—with U.S. officials?

Mr. MCMINN. We have discussed it at no great depth with the Department of Commerce because it seems to us that while we can't intrude on their system of laws, if indeed some of that pertains here, there might be some antitrust implications in the combination of supplier-assembler here in the United States freezing out U.S. competition. That's beyond our legal resources to investigate thoroughly, but we have suggested that perhaps Commerce could take a look at that, particularly as it pertains to business operations in the United States by Japanese companies.

And it is a very close relationship that is the kind of relationship that, for the most part, would not be permitted here. It's a vertical monopoly essentially, and so it has occurred to us that that's part of the structure; part of the problem, but it's beyond our individual association's resources to delve into in sufficient depth to see whether there's some actionable information there.

Senator WILSON. So the problem you are encountering really is one of market access, rather than dumping in the U.S. market?

Mr. McMinn. No, I don't think we could identify that. It's more an attempt to dominate a particular piece of the market by just not permitting access. All of the United States assembly plants of the Japanese companies are continuing to import and, in one case, shortly will begin manufacturing the engines, for instance, for the cars that are assembled here. And by not getting access to original equipment manufacturer, it's very difficult to enter the replacement market for those products because you don't have the volume necessary to be price competitive. But, they are not in most cases entering the market at dumping level prices that we can detect.

Mr. Cole. One of the major U.S. aluminum companies has had discussions with our Government with respect to possible dumping aluminum products, not in the automotive area but in other areas, and there are preliminary assessments being made right now. We are quite concerned that the Japanese have built capacity in aluminum rolling mills far beyond their ability to utilize that capacity in the Japanese market and they are out of cutomers now.

Senator Wilson. Well, if we're talking about Japanese suppliers to Japanese buyers, specifically to automotive parts suppliers to the Japanese plants in the United States, I don't anticipate that we will encounter dumping. That has been encountered, however, in a different context where we are talking about an American domestic firm here. And Mr. Procassini's travel schedule prohibited me from pursuing that with him, but we will do so at another time in this same forum.

As you are well aware, the Department of Commerce has found a very substantial amount of dumping on the part of semiconductor manufacturers in Japan and the result is the posting of cash bonds to offset the very substantial price reduction that the Japanese are charging for their product here.

Gentlemen, thank you for the valuable insights you have provided us with how Japan's restricted buyers-sellers club in autoparts undermines free trade principles.

We may be forced to employ a different kind of "club" to pry open this Japanese network. Up to now, appeals to decency, reason, and common interest have gotten us nowhere.

I frankly share your shock and outrage at Japanese apparent rejection of automotive parts as a subject for the MOSS talks. We are going to have to develop another American characteristic to deal with Japanese intransigence in the form of iron-like determination that will compel Japan to open its market to United States competition--including autoparts.

Thank you very much for being here. This meeting is adjourned.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, subject to the call of the Chair.]



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